Annual Report | 2004-05

Farm Credit Canada

Farm Credit Canada

The Road to Success. Made in Canada.

What does success mean to you? Ask 10 people and there will be 10 different answers. It may be helping someone realize the dream of diversifying the family grain farm with a secondary enterprise. It's bringing an amazing business idea to life. Or it may be the satisfaction of planting a new crop. What matters is that success is personal.

At the same time, success is rarely a solo mission. Many talk about the right-hand man or woman at their side through challenges and plain hard work.

Relationships begin with collaboration. With sincere commitment and true connection, relationships stand the test of time. FCC understands the importance of relationships with producers, agri-food operators, equipment suppliers, financial lenders, community groups and everyone else who loves this industry as we do and earns a living from it. Working with each other paves the way to everyone's success.

Success

How does an organization connect with people to help map out their personal road to success? For starters, it takes people with a genuine interest in the customers they serve. The "customer experience" is a term you hear everywhere around FCC. We want every customer to feel that FCC listens to his or her unique needs. We have the ability to help customers from start-up and growth to sustained success.

We facilitate our customers' ability to succeed by offering courses that teach strong business management skills.

We provide software specifically designed for agriculture that provides access to crop and field data from anywhere – home, office or the tractor in the field.

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" Communication is key to unleashing the power of people. This results in strong customer relationships, engaged employees, financial sustainability and growth. "

We offer a range of loans designed exclusively for agriculture.

We offer secure investment alternatives such as bonds and peace of mind with insurance that protects families and their operations.

We offer venture capital available only to the agriculture and agri-food industry.

Whatever work we engage in, you can count on our deep interest in the long-term health of agriculture.

Employees – our foundation

There is a unique energy at FCC. We are committed to each other's success. This helps retain our most valuable asset – our people. And when attracting new employees, it doesn't hurt that we're recognized as one of Canada's top employers.

We believe the foundation of any relationship is communication. John Ryan, President and CEO says, "Communication is key to unleashing the power of people." This results in strong customer relationships, engaged employees, financial health and continued growth.

Excellent communication is characterized by deep listening. Not simply listening to hear, but listening to understand. In 2004, more than 40 per cent of FCC's business came from new loans and services that did not exist five years ago. Many were created in response to customer ideas.

We put a lot of effort into nurturing open relationships inside FCC and we stress the importance of demonstrating these skills with customers. We strive to meet with customers and partners on their terms, be it face to face, by phone or via secure, around-the-clock web access.

Corporate social responsibility

Our sense of corporate social responsibility extends far beyond giving to the communities we serve. It is rooted in our mission, vision, corporate values and cultural practices that serve the needs of the agriculture industry.

We focus on developing employees, capturing knowledge in the agriculture marketplace and measuring performance, as well as fostering a climate where diverse thoughts and backgrounds are welcome.

We provide visible support to rural Canada through community investments such as our AgriSpirit Fund, FCC 4-H Scholarship Program, Employee Volunteer Program, World Food Day activities and the Holiday Cheer campaign, just to name a few. Our commitment to do business responsibly safeguards the environment.

Agriculture and Canada – our focus

We are proud to be Canadian. We are a federal Crown corporation and paid a dividend this year to our shareholder, the Government of Canada.

Our customers plant crops and raise livestock and poultry on Canadian soil. They run aquaculture operations in Canadian waters.

Our agri-food and value-added customers contribute to Canada's world class reputation.

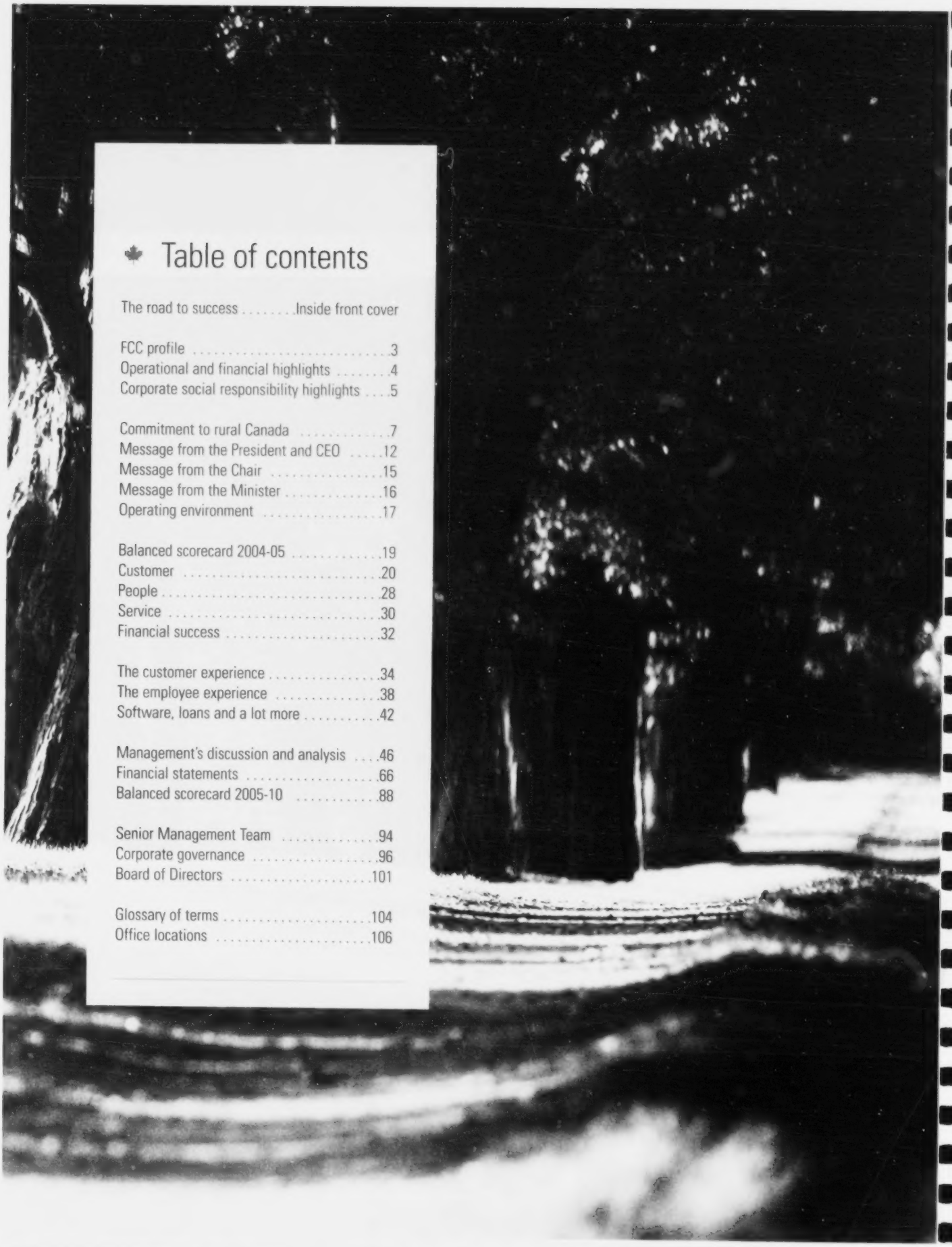
We provide incentives to young people who spearhead projects to enhance their rural communities. Our employees give back to the communities where they live and work.

We bring community projects to life with funding and by extending a helping hand.

We believe volunteering time is as valuable as giving money. We collect donations for food banks throughout the year, and volunteer thousands of hours to community groups and charities.

Many FCC employees grew up on farms. They share stories around the office about the highs and lows. Many still help out on the family farm by lending a hand during seeding and harvest.

Agriculture. We know it, we love it and we're in it for the long run.



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Driving forward – FCC profile

Vision

Visionary leaders and trusted partners – putting the power of our people's specialized knowledge and innovation to work for farm families and agribusiness across Canada.

Agriculture. It's all we do.

Farm Credit Canada (FCC) is all about agriculture. We help Canadian producers, suppliers and processors succeed. We are a self-sustaining federal Crown corporation.

Our commitment to corporate social responsibility (CSR) is evident in our public policy role, how we develop our employees, our dealings with customers and suppliers, our commitment to invest in the communities we serve and our dedication to protect and treat the environment.

We have served the agriculture industry for 45 years. It is our sincere privilege to work with those who feed our country and the world.

Mission

To enhance rural Canada by providing business and financial solutions to farm families and agribusiness.

FCC fulfils its mission by offering loans and services to the agriculture community, using solid business principles.

Corporate values

Our corporate values guide our conduct with colleagues, customers and stakeholders:

Focus on the customer
We succeed when our customers succeed. To help them, we listen and work to understand their needs.

Act with integrity
We treat people – colleagues and customers – with respect, balancing business decisions with individual needs.

Working together
We believe in the power of teamwork. We work together with customers to design solutions tailored to their needs. We partner with other organizations to the benefit of customers.

Give back to the community
We believe in giving back to our communities – the communities where our customers and employees live and work.

Achieving excellence
We are committed to one thing – the success of the Canadian agriculture industry. And what we do, we do very well. We always set our sights high, strive to learn more and work to build a business that benefits customers and helps employees achieve their potential.

Cultural practices

FCC's cultural practices support the achievement of our corporate values. They detail how we work with one another – primarily within FCC, and also with suppliers, customers, partners and other stakeholders. We believe that a positive employee climate drives great customer experiences.

Accountability is the key to our cultural practices.

We hold ourselves and each other accountable for:

- our impact on business results and our impact on people;
- delivering on commitments, agreements and promises;
- building and sustaining committed partnerships; and,
- creating a safe environment where people can speak up without fear.

We measure our success by how others perceive and respond to our leadership, not by our personal point of view.

We talk straight in a responsible manner.

We are committed to the success of others – we do not engage in "conspiracies against" people.

We "listen for" contributions and commitment. We do not listen against people or ideas.

We are highly coachable. We actively seek and listen to coaching.

We clean up and recover quickly.

We acknowledge others often and celebrate both small and large successes.

Operational and financial highlights

For the year ended March 31, 2005

In 2004-05 FCC experienced another year of exceptional growth with our portfolio growing by $1.1 billion and an 11.° per cent increase in net income. The number of disbursements continued to increase with net disbursements reaching $3.1 billion. Our net interest income continues to grow somewhat offset by increases in provision for credit losses and administration expenses. The increased net income and equity continues to build a strong financial foundation ensuring sufficient resources for continued growth and viability while supporting customers during all economic cycles.

Operational	**2005**	**2004**	**2003**	**2002**	**2001**
Loans Receivable Portfolio					
Number of loans	85,650	82,551	78,442	75,888	75,202
Loans receivable ($ millions)	11,150.0	10,039.0	8,803.7	7,708.5	6,903.6
Net portfolio growth (per cent)	11.1	14.0	14.2	11.7	9.5
Loans receivable in good standing (per cent)	96.9	96.0	96.4	96.5	95.5
New Lending					
Number of loans disbursed	27,948	26,529	25,133	16,753	14,471
Net disbursements ($ millions)	3,067.2	2,861.7	2,561.4	2,102.0	1,667.5
Average size of loans disbursed ($)	109,747	107,871	101,914	125,470	115,230

Financial	**2005**	**2004**	**2003**	**2002**	**2001**
Balance Sheet ($ millions)					
Total assets	11,405.0	10,203.9	8,982.3	7,876.6	7,177.8
Total liabilities	10,320.5	9,258.7	8,142.7	7,133.4	6,347.3
Equity	1,084.5	945.2	839.6	743.2	830.5
Income Statement ($ millions)					
Net interest income	351.9	314.4	273.2	204.9	165.5
Provision for credit losses	95.2	84.0	67.2	45.5	40.2
Other fees and income	5.0	4.1	6.6	7.4	25.5
Administration expenses	143.7	128.9	116.3	98.6	91.6
Income before income taxes	118.0	105.6	96.3	68.2	59.2

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Corporate social responsibility highlights

For the year ended March 31, 2005

According to the Conference Board of Canada, corporate social responsibility (CSR) is about "transparently pursuing long-term corporate objectives in a manner that balances corporate decision-making, behaviour and performance with the evolving values, norms and expectations of society."

The following summary was adapted from the Globe and Mail's Report on Business second annual CSR Ranking to measure FCC's progress in five key decision-making, behaviour and performance priority areas.

	2004-05
Community investment	
Policy statement on community donations is available to the public	yes
Calculates donations based on one per cent of profits	yes
Programs are in place to support employee giving and volunteering	yes
Corporate governance	
Statement of social responsibility	not yet
Statement of corporate values	yes
Code of business conduct	in progress
Board Chair and company CEO are separate functions	yes
Customers	
Conducts customer satisfaction surveys	yes
Helps customers market their products	yes
Loans available that help people get into agriculture	yes
Offers industry-related training	yes
Employees	
Conducts employee satisfaction surveys	yes
Provides employees with education and development	yes
Conducts annual market compensation reviews	yes
Policy on diversity and employment equity	yes
Publicly reports on diversity issues	yes
Offers employees diversity training	yes
Benefits include additional maternity and paternity benefits	yes
Percentage of women on the board	42
Percentage of women among senior managers	10
Environment	
Corporate environmental management systems in place, including policies, programs and performance analysis	not yet
Reports on resource use (energy, materials, water)	not yet
External reporting on lending environmental risk management	in progress
Lending environmental risk management policy and processes, including environmental risk assessment	yes
Offers loans that reduce the environmental impact	yes
Environmental reporting, including policy, programs and initiatives, performance and compliance data	in progress
Human rights	
Human rights policy and code of conduct	yes
Policy/code of conduct governing the supply chain of procured items	not yet

Commitment to rural Canada

FCC's commitment to agriculture and rural Canada is steadfast. Actions speak louder than words and we are proud to offer a few highlights that demonstrate our passion for the success of our employees, customers and the industry.

"We produce a lot of food in our country, and people – especially children – should not go hungry. Plain and simple. This trek was all about what we as individuals can do to impact the communities we live and work in. I'm not asking everyone to commit to a week-long journey on a tractor like I did, but consider what difference you could make. Let's do what we can collectively to drive away hunger." Dale Snider, FCC District Manager in Listowel after arriving in Owen Sound, Ontario and wrapping up his Drive Away Hunger Tour.

Dale Snider drove an open tractor pulling a trailer across midwestern Ontario for a week-long journey in September, armed with a coffee mug, sleeping bag and determination. We called it Drive Away Hunger. In the end, more than $28,000 and 19,000 pounds of food were collected for Ontario food banks by Snider and his FCC team, which included Sharon Fendley, Darryl Smith, Carole Schwartz, and a cast of many from the Strategy, Knowledge and Reputation team.

Drive Away Hunger fuelled the spirit behind another 20 FCC activities across Canada in October that raised 30,000 pounds of food to mark World Food Day. At our corporate office in Regina, a corporate challenge with other organizations raised 32,000 pounds of food in one day.

In addition, we donated $25,000 to the Canadian Association of Food Banks to support the National Food Sharing System. This system ensures that food gets to the areas that need it most in rural neighbourhoods.

We helped feed Canadians during the December holidays by partnering with the Dairy Farmers of Ontario (DFO) and donating $10,000. It was part of the DFO's ongoing milk donation program from Ontario dairy farmers to the Ontario Association of Food Banks. This donation highlighted our Holiday Cheer program. We donated to hunger awareness and fundraising campaigns across the country in December. In addition, FCC employees volunteered their time over the holidays to organize activities in 74 Canadian communities.

"When I think of supporting rural Canada, my first reaction is to talk about our community investments. There's all our work with food banks and rural safety, our new AgriSpirit Fund and the agricultural trade shows and community events that we sponsor. These are real examples of our commitment to rural Canada, and it makes me proud to work here." Charles Gauvin, FCC Account Manager in St-Hyacinthe, Quebec.

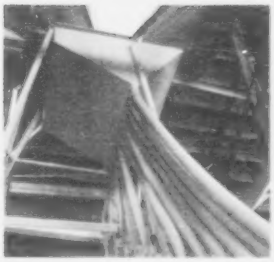
We're proud to be part of the Canadian Centre for Philanthropy's Imagine program. This means we donate at least one per cent of our profits each year to Canadian charities and other not-for-profit organizations.

We partner with St. John Ambulance to deliver First Aid on the Farm, a national program offered to schools, 4-H clubs and rural community members to heighten farm safety awareness. Since 2001, more than 4,925 students at 188 schools across Canada have been trained.

The FCC AgriSpirit Fund was launched in November. The purpose of the fund is simple – to help turn community improvement dreams into reality by making $400,000 available for funding. FCC will support 38 projects across Canada in 2005.

"If economic factors or profits were our only motive, I don't think we'd maintain a presence in every province or in all the communities that we do. With all the advances in technology, there's an argument that we don't need 100 offices across the country. We know there is strength in community. Our customers want to spend time with us face to face. E-mail and video conferencing are great, but nothing compares to sitting at the kitchen table with a customer and talking about agriculture and food." Greg Stewart, FCC Executive Vice-President, National Operations.

We provided $3.1 billion in new financing to the agriculture industry last year and more than 90 per cent of that served primary producers. Customers today use a range of loans and business services, a reflection of the fact that doing business in agriculture is becoming more and more complex.



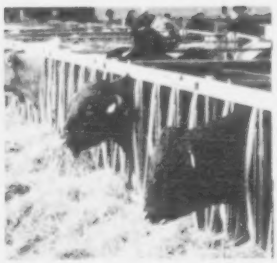
"We continue to demonstrate our long-term commitment to agriculture. We didn't close shop on beef customers when the border didn't open. We didn't pull our funding from poultry producers in British Columbia when avian flu hit. And we helped grain customers who faced an early frost in August. We stand by our customers. We really do work with them to make arrangements to see them through tough times and ensure they're around to enjoy the good times again." Lang Ellison, FCC Account Manager in Kelowna, British Columbia.

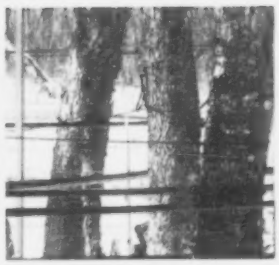
We've welcomed a lot of new customers who are part of the agriculture food chain. We're proud to serve food processors (such as dairy, cheese, fruit, vegetable, egg, poultry, and niche or specialty products), flour mills, further processors of chicken, pork and beef, building and equipment manufacturers, food and livestock distributors, wineries and greenhouses – just to name a few. We also directly fund larger-scale commercial agribusinesses. In some cases, we've partnered with other financial institutions to provide a complete package of financing for larger projects.

"As our rural population ages, a lot of people will be looking forward to retirement. They need the management skills and the tools to pass on their assets to a family member or other buyer. That leads right to succession planning and our Transition Loan. It ensures the seller gets cash up front while the new entrant has time to pay and only has to put 10 per cent down. Basically, FCC is the middle person and it works for us and the customer." Gary Aubin, FCC Account Manager in Grande Prairie, Alberta.

Because there's no one-size-fits-all loan for our customers, we offer 18 types of loans. Our loan portfolio offers flexibility, giving our customers room to move. It puts the reins in their hands so they can quickly jump on opportunities that come up.

"I wanted everyone to know that beef is safe and nutritious. My idea was to organize a 'Beef it Up!' tent with interactive educational games, including 'Beef it Up!' Jeopardy and the 'Beef it Up!' Wheel that educated participants about the importance of beef," says Alison Kumpula from Lac La Biche, Alberta. Alison was the FCC 4-H Scholarship winner for B.C. and Alberta in 2004. We built stronger communities by awarding 10 $1,500 scholarships to 4-H members across Canada this year. An additional $2,000 scholarship and an implementation budget of up to $3,000 is provided each year to a national 4-H winner based on the community project he or she submits. In addition to Alison's "Beef it Up!" idea, last year's winning community projects included a local food guide and a road safety educational video.





"FCC Ventures is another way we support businesses that impact rural Canada. We recognize that it takes time for businesses to grow and expand, and we want to be there to help small to medium-sized ventures focus on their best opportunities for success. In our first three years, FCC Ventures has provided $31.1 million in venture funding." Jim Taylor, Vice-President, Venture Capital, FCC Ventures.

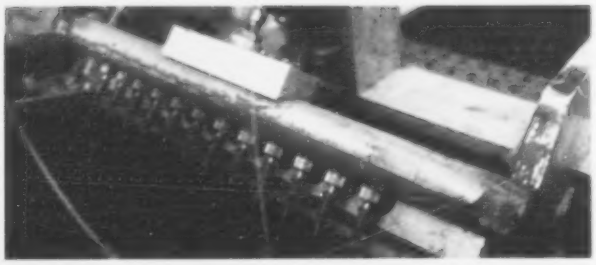
To move business forward, we provide traditional term debt and equity financing. FCC Ventures assists businesses in the fields of value-added processing, agricultural equipment, commercial scale primary production, agricultural biotechnology, forestry and others that have a positive impact in many different sectors. It's one of the few venture capital funds in Canada that focuses on the agri-food industry.

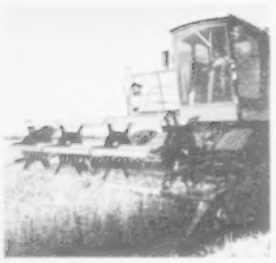
"The parents of students at École St. Joseph keep busy with various fundraising activities, including a spaghetti supper and bake sales. Through FCC's volunteer program, $500 was donated to our school. We're using it to buy new playground equipment such as soccer nets and basketball equipment." Mariette Vaillancourt, secretary of the St. Joseph Parent Committee and FCC Customer Service Representative in North Bay, Ontario.

FCC employees build communities in their own way. Outside of the office, we're individuals with unique passions. Some help with amateur sports, others raise money for worthwhile charities, build arts organizations and work with transition houses, food banks or Special Olympics.

We encourage employees to give back to the communities where we live and work. With the Employee Matching Program, employees give and FCC gives more. FCC donates another 50 cents to registered charities for each dollar employees raise. And we've formalized the kindness of volunteering with our Employee Volunteer Program.

In our global community, we remembered our neighbours across the ocean following the tsunami that devastated Asia and Africa in December 2004. FCC employees donated $27,730. With the matching donations from FCC and the federal government, $83,190 went towards rebuilding the lives of the millions of people affected by the tragedy. In addition, 50 employees stepped up to volunteer at the Regina Red Cross to assist with data entry, answering phones and collecting donations.





"I'm a firm believer that we must make a concerted effort to market more of our own products. Linking up with FCC's CanadianFarmersMarket.com is an excellent way to increase awareness of many products and producers. FCC should be commended for this initiative." Rod Potter of Century Game Park in Ontario and the fifth-generation Potter to live on his family land.

To tell the world about Canadian producers and products, we launched a new website, CanadianFarmersMarket.com in 2004. FCC customers, including Rod Potter, sell their products directly to customers in the world's biggest marketplace – the Internet.

"Agriculture plays an important role in environmental sustainability. Farmers adopt a range of good environmental practices, and these ensure agriculture's enduring viability and profitability. At FCC, we know the value of environmentally sustainable business practices. As a federal Crown corporation, we support the environmental pillar of Canada's Agricultural Policy Framework and it is our responsibility to ensure that our lending activities do not lead to misuse, contamination or other deterioration of the environment." Jan Cowie, FCC Environment and Legal Policy Analyst.

We're leaving a healthy environment for future generations. FCC looks at the environmental risks associated with lands offered as real property security. We lend to producers who want to enhance the environmental aspect of their operations. One way we can help promote and maintain a healthy environment for future generations is through the FCC Enviro-Loan. Our customers may enhance their environmental stewardship by making improvements and adopting environmentally beneficial practices when they construct, improve or expand their operations.

"While I don't think I was overly prejudiced beforehand, it's probably safe to say that I didn't really think about agriculture at all. And if I did, I'm sure I had a few notions about farmers as slow to change and anti-technology," says journalism student Eve Thomas. What she learned was that "most of them could rival a city stockbroker any day."

We're helping tomorrow's journalists gain a better understanding of agriculture. Yes, there are issues in agriculture, and there are also a lot of success stories seldom told. That's where the idea for Ag 101 on Highway 1 was born. We took four journalism/broadcasting students from Canadian colleges and universities on the road for a week to learn about agriculture. In addition, FCC offers AgriSuccess Business Planning Awards to students in agriculture diploma and degree programs across Canada.

"We believe in the power of relationships between our employees, customers, communities and business partners."

Message from the President and CEO

Agriculture is a highly successful industry, fundamental to the lives of all Canadians. From coast to coast, the men and women involved in agriculture put food on our tables and add value to our economy in substantial ways. Together, agriculture, fishing and forestry account for $23 billion of Canada's gross domestic product.

The industry boasts incredible diversity. It encompasses primary producers, the input suppliers who serve them and value-added processors who turn our raw commodities into the highest quality food in the world.

Agriculture is dynamic and ever changing. This past year, the industry continued to offer new opportunities through increased value-added processing, growth of agri-tourism and new markets for speciality crops, to name a few. Producers seized these opportunities, finding new ways to succeed. Every time I meet with customers and stakeholders, I am amazed at their incredible resilience and innovation.

At FCC, we're proud to be a partner in the success of Canadian agriculture. In 2004, we continued our support strategy for customers in the beef and poultry sectors, working with individual producers to help them manage through another difficult year. Since May 2003 and the border closure, we have loaned $884 million to more than 7,000 beef customers.

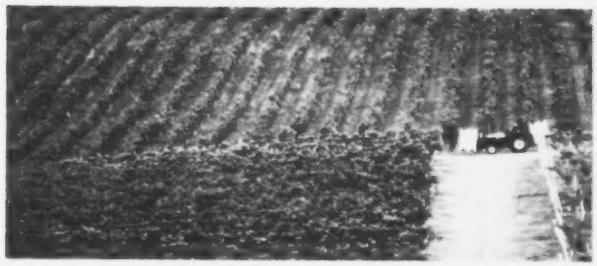
We proudly reaffirmed our support for our poultry customers following the avian flu outbreak in British Columbia and received positive accolades from the poultry sector. And we worked closely with our grain customers in Western Canada following an early frost.

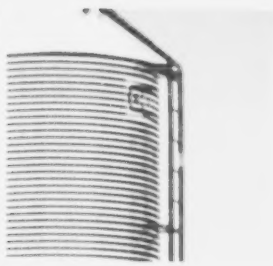
At the same time, we offered loans and business services tailored to agriculture's unique needs, from traditional debt financing to venture capital and education on sound management practices. In 2004-05, FCC provided $3.1 billion in new financing to producers and business operators, helping them grow, diversify and prosper. By March 31, 2005, our total loan portfolio had grown to $11.2 billion – a clear indication of our customers' success.

Many savvy producers, processors and others are examining how they can capitalize on consumer and market trends, building partnerships along the value chain, from inputs to outputs, increasing efficiencies, managing risk and intensifying marketing efforts.

At the same time, they're expanding. Economies of scale are driving consolidation in every sector and the gap between large and small operations is increasing. Bigger farms require larger capital investments.

At FCC, we're working hard to help provide the financing needed for industry growth. We listen to our industry partners and customers to understand their unique needs, and tailor our loans to suit those needs. Today, FCC offers 18 loans with a variety of deferred payment arrangements to fit different sectors and production schedules. As Canada's value-added sector has grown, we have developed specific loans to support agribusiness – on the input and output side of primary production. And, over the last two years, we have





developed our venture capital division, FCC Ventures, to help encourage the flow of equity capital into agriculture.

We know that managing today's larger, more complex farm and agribusiness calls for sophisticated management skills in areas such as finance, human resources and marketing. Operators who are able to run at top efficiency, make wise use of new technologies, research and meet market demands, and attract and keep top employees are most likely to grow, diversify and prosper.

Over the last year, FCC offered a range of new AgriSuccess workshops across Canada, focusing on financial management and human resource practices. We offered publications to help producers stay on top of the latest agriculture news and management trends. And we released new versions of AgExpert Analyst, an accounting and financial management package designed specifically for agriculture, and AgExpert Field Manager, a powerful tool to help farmers plan and track their crops and fields.

Every time I meet with a customer who tells me that FCC has made a difference and helped them to realize their dreams, I feel a tremendous sense of pride. I am often told that we are different as a company, that we "get it." That is why I would like to thank our 1,100 employees for their sincere commitment to Canadian agriculture. The experience we strive to offer customers would not be possible without these dedicated men and women, many acknowledged externally as experts in their fields. For the second consecutive year, we were named one of the top 50 companies to work for in Canada by the Globe and Mail's Report on Business and Hewitt Associates.

We were also recognized on Maclean's Top 100 Employers list. This is tangible proof that the internal climate at FCC is very positive, and helps define why our employees are so engaged with our customers.

We are committed to the long-term future of Canadian agriculture. Intergenerational farm transfer is a major issue in agriculture. We are taking a proactive approach to helping young farmers and we've developed a number of loans specifically for young producers. Young farmers, or those aged 18 to 40, make up $1.9 billion – or roughly 18 per cent of our total loan portfolio.

We are so proud of what our customers produce that we offer them free space on our website to showcase their products and services. We took journalism students on the road to educate them about agriculture. We're investing in the rural communities where our customers live and work with our new AgriSpirit Fund, which provides capital funding to community projects. And these are only some of the ways we are promoting the value of agriculture.

We believe in the power of relationships between our employees, customers, communities and business partners. Their commitment and passion provides inspiration as we constantly challenge ourselves to meet the changing needs of the agriculture industry.

We look forward to the opportunity to learn more, and to offer more in support of agriculture and rural Canada. Most of all, we look forward to a continued partnership with our customers, and to helping them find success and achieve their dreams.

John J. Ryan

" Working together to promote a positive attitude about farming and encouraging young people to either get into or stay with the agriculture and agri-food industry paves the way for everyone's success. "

Message from the Chair

Agriculture is a vibrant, knowledge-intensive and demanding industry. The changes in our industry are staggering, from changes in the size of operations and the dollars invested to changes in the types of products and services required to help a customer succeed.

FCC's core business is lending. However, today's producers need strong skills in human resource and financial management, and business and succession planning, to name a few. FCC now provides opportunities for customers to enhance their skills and grow their farm or food operations. The Board strongly supports these initiatives.

The Board of Directors oversees the operations of FCC. We lead decisions regarding the corporation's strategic direction and ensure high levels of accountability, openness and integrity. We are committed to ensuring that FCC remains at the forefront of good corporate governance practices in Canada.

This year, the Board established a Nominating Committee and approved a new Board Charter and Guidelines, a new Code of Conduct for employees and Directors, and reviewed and revised the Charters of all of its committees. The Board also conducted a compliance review of its Audit Committee to ensure it is fulfilling its responsibilities.

The Board has an active role in overseeing the performance of FCC, while at the same time empowering the Senior Management Team and all employees to do what they do best – serve Canada's agriculture and agri-food industries.

FCC fulfils its mission and public policy role by offering loans and services that support and grow agriculture. We serve customers through 100 offices in primarily rural Canada and provide service in both official languages.

FCC is a strong corporate citizen. Our employees are devoted to Canada's rural communities. We demonstrate our commitment to make a difference in communities coast to coast through donations of money and time. The FCC AgriSpirit Fund is another exciting endeavour. Contributing to projects across our country will benefit rural residents and communities for years to come.

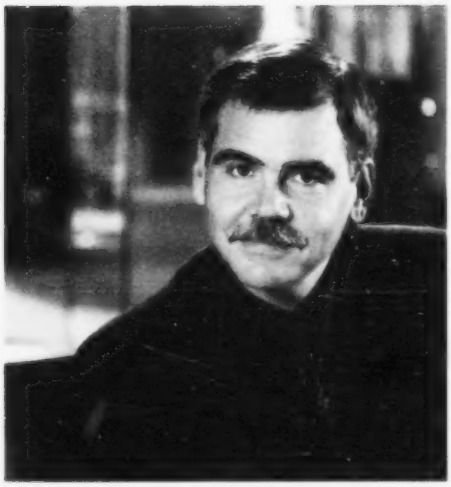
Agriculture is an industry built on partnerships. Working together to promote a positive attitude about farming and encouraging young people to either get into or stay with the agriculture and agri-food industry paves the way for everyone's success.

On behalf of the Board of Directors, I sincerely thank all 1,100 FCC employees for the passion and excellence demonstrated each day. The Board recognizes your efforts at work and as community volunteers. We applaud your dedication to our customers, partners, suppliers, vendors and all others who earn a living from agriculture.

Respectfully submitted on behalf of the Board of Directors.

Rosemary Davis

Rosemary Davis



" Canada succeeds when all of its parts are strong, when we have not only a strong urban Canada but also a strong rural Canada. "

Message from the Minister of Agriculture and Agri-Food

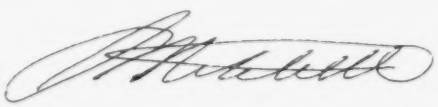
I am delighted to have this opportunity to congratulate Farm Credit Canada for over four decades of service dedicated to the well-being of Canadian producers.

In my capacity as Minister of Agriculture and Agri-Food, my focus is clearly on farmers and farm families. The Government of Canada is committed to creating an environment that allows producers to earn a profitable living and that allows rural communities to remain sustainable. Canada succeeds when all of its parts are strong, when we have not only a strong urban Canada but also a strong rural Canada.

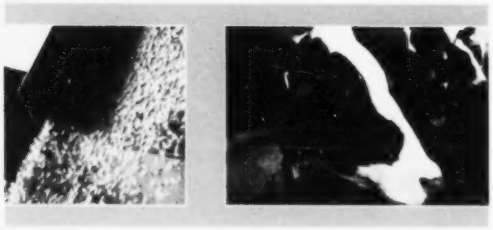
Since 1959, Farm Credit Canada has contributed enormously to the creation of an environment in which farmers and agribusiness can flourish. The products and services you offer are as varied as the producers who use them, ensuring that all the financial and business needs of those working in agriculture are met.

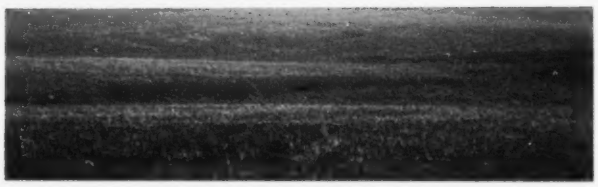
Agriculture and Agri-Food Canada is also committed to creating opportunities for farmers to be profitable and, like you, we are making it a priority to ensure that Canadian farmers have the right advice and tools to make sound business decisions. Together, our efforts will ensure that Canadian farmers and our agriculture industry continue to be world leaders in production and in sustainable practices.

I applaud your dedication to agriculture and the people for whom agriculture is more than just a business, but a way of life, and look forward to your continuing efforts to support rural Canada and Canadian agriculture.



The Honourable Andy Mitchell
Minister of Agriculture and Agri-Food





Operating environment

FCC proactively monitors the agriculture and financial services industries. Our deep understanding of issues and opportunities facing those involved in agriculture drives the creation of innovative ways to help customers succeed in this increasingly complex industry. This section highlights key aspects of our operating environment over the past year.

Agriculture

FCC is focused on agriculture, a key contributor to the national economy. Whether harvesting forage, seed and grain, producing livestock or dairy products or operating a winery – the fruits of farming touch every Canadian. Producers, growers, ranchers, suppliers and processors participate in an increasingly complex industry, using sophisticated management practices and an ability to predict trends and serve new markets. Such business management expertise is critical to long-term success. FCC is addressing this need through an array of flexible financing and business services – including training – that extend beyond the corporation's traditional lending activity.

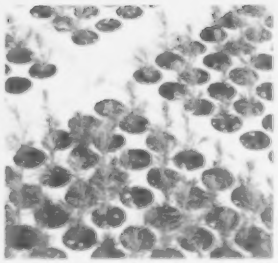
According to Statistics Canada, the median age of farm operators in Canada increased from 47 in 1996 to 50 in 2001. Over the next decade, as farms are transferred to a new generation, more than $50 billion in assets is expected to change hands.

The Bovine Spongiform Encephalopathy (BSE) saga remains top of mind. Since the May 2003 discovery of an infected animal in Canada, BSE, or mad cow disease, has created a serious problem for those involved in producing and processing Canadian beef. Other sectors, including sheep, goats, deer, elk, bison and llamas, have also been affected by a closed border. The dairy industry was affected as dairy farmers sell their cull and replacement animals into the same market as beef cattle. Other value-added businesses also have been affected.

With a closed border, Canadian exports of live cattle and beef dropped to zero from an average monthly export of live cattle and beef of $134 million and $175 million respectively.

Avian flu struck the poultry sector in 2004. To stop its spread, more than 17 million chickens, turkeys, ducks and geese were depopulated in British Columbia's Fraser Valley. Producers faced a lot of uncertainty during this period. FCC responded by allowing poultry customers to defer payments to support them through this crisis.

When disasters such as BSE or avian flu occur, FCC proactively contacts customers to develop plans that help them manage through challenging times. This provides an opportunity to explore flexible solutions such as payment rescheduling or interest-only payments.



We believe in the long-term viability of the beef sector and continue to lend money to our beef customers.

Farm cash receipts dropped $5 billion between May 2003 and November 2004, primarily due to livestock markets and lower grain prices. Meanwhile, the average net worth per farm has increased by 15 per cent since 1999.

As concern for the environment moves higher on the public agenda, regulations are becoming more stringent. Some operations will require additional capital to comply with new environmental regulations.

Financial services industry

Like agriculture, the highly competitive financial services industry is affected by change on many levels. Recent corporate scandals have brought about key financial reforms across North America. Potential mergers, changing legislation, increasing regulation, volatile markets, changing demographics and technology are having an impact. The effects of Bill C-8, reforming Canada's financial services industry, will also impact the marketplace.

Technology is shaping consumer demand and business models. Financial institutions provide customers with access to information and services 24 hours a day, seven days a week – in person, by phone or through the Internet. FCC has determined that field staff located in rural areas will remain a dominant service channel. This is supported by a call centre and Internet access.

Statistics Canada indicates that farm debt outstanding rose to $47.7 billion at the end of 2003, continuing the steady upswing since 1993. Farm debt in Canada increased 22.3 per cent over the previous five-year average. In 2003, all provinces except Newfoundland and Labrador increased their debt loads.

Most non-mortgaged debt was owed to chartered banks (59.1 per cent) and credit unions (22.8 per cent). In 2003, FCC's market share of non-mortgaged lending was 5.1 per cent. Major holders of mortgaged farm debt in 2003 were FCC (37.9 per cent), chartered banks (26.2 per cent), private individuals (15.0 per cent), credit unions (8.5 per cent) and provincial government agencies (6.0 per cent).

International considerations

Of ongoing interest are changes in the value of the American and Canadian dollar and each country's interest rates, since the United States is Canada's primary trading partner.

Global trade issues continue to place pressure on Canadian producers to increase efficiencies and competitiveness. New competition for Canadian products is emerging.

The current round of World Trade Organization agriculture negotiations is expected to address issues associated with supply management systems, national trading organizations and subsidies. When these negotiations are finalized, it will be important to understand the effect on Canada's agriculture industry.

The United States Farm Bill will be in effect until 2008. The bill will increase federal spending on agriculture and food substantially and is expected to result in greater production, higher U.S. exports and lower world prices.

The role of government in trade continues to expand following the September 11, 2001 terrorist attacks on the United States and heightened global conflict. Foreign trade will continue to be more expensive because of higher transportation costs and border costs and delays (more than 80 per cent of Canadian exports are to the United States).

The international Kyoto Protocol calls for reduced production of greenhouse gases. How this will affect the Canadian economy, and specifically agriculture, has yet to be determined.

Balanced Scorecard 2004-05

Objectives, measures and targets

Every year, FCC measures progress toward achieving corporate objectives through its balanced scorecard, which translates vision into corporate objectives, measures, targets and initiatives. Each objective falls into one of four different balanced scorecard perspectives: customer, people (employees), internal capability* and financial/shareholder.

The balanced scorecard assumes that financial outcomes can only be achieved if customers are satisfied. To satisfy customers, internal capabilities such as processes and systems must be in place. Ultimately, all objectives are interconnected and deliver on FCC's desired outcomes: financial sustainability and industry success.

* changed from "service" to "internal capability" in 2004

Balanced Scorecard 2004-05

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FCC Balanced Scorecard 2004-05 Results

Customer – create solutions for customer success

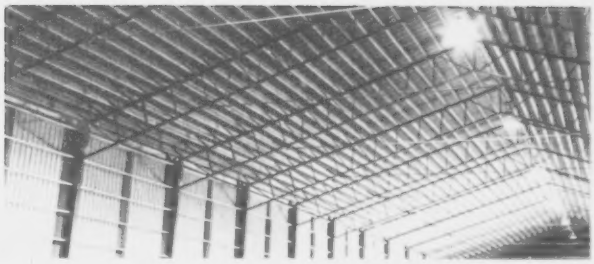
Corporate Strategy Statement

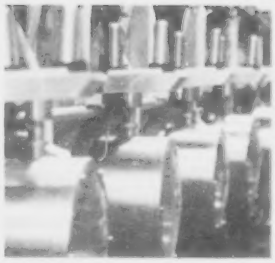
FCC will sustain high customer loyalty, grow its loan portfolio, invest in venture capital and deliver products and services to enhance producer and agribusiness management practices in order to support agriculture in Canada.

Corporate Measure

Customer Loyalty Index: Minimum of 4.24*
Loan Portfolio Growth: Average annual growth rate of 7.8% over five years
Venture Capital Investments: $78 M invested through 2008-09
Business Services Growth
Overall Reputation Index: Maintain at 134**

Corporate Strategies 2004-09	Strategic Initiatives 2004-05	Measures and Targets
Grow returns by serving customers.	• Targeted Agribusiness and Farm Finance portfolio growth.	• Disbursement targets: 2004-05: $2.17B.
Stimulate access to venture capital funds.	• Established Venture Capital fund with an active portfolio. FCC will allocate additional capital based on performance of the portfolio.	• 50% of investments will carry a current yield; for every dollar invested by FCC Ventures, an additional $1.3 will be attracted to the industry. • Cash disbursed for capital investments: 2004-05: $25.0M. • Interest and fee revenues: 2004-05: $1.8M.
Develop processes to enhance co-ordination of business lines.	• Strengthen the National Business Plan.	• 2004-05: Clearly defined sales and marketing roles. Integration of all business lines, geographic and sector strategies.
Improve customer choice by developing alternate delivery channels.	• Targeted, diversified Alliance*** portfolio growth.	• Alliance disbursements: 2004-05: $558M.





2004-05 Results

- Farm Finance: $2,097.8M
  Agribusiness: $519.1M
  Total: $2,616.9M

- In 2004-05, FCC ventures placed $22.3M which includes a $5M acquisition facility that has not yet been drawn. $41.0M in co-investment funds were attracted, for a co-investment ratio of 2.4:1. Interest and fee income was $2.2M.

- Clear definition of sales and marketing roles is complete. Significant improvements were made to the National Business Plan, including priorities for each business line. The plan was renamed the Market Development Plan and is the strategy driving the technical execution of market development activities in 2005-06 by geographical and customer segment. A new Integrated Marketing Communication strategy map was developed to enhance enterprise-wide co-ordination of market development and product solution initiatives with those of brand and communication.

- Alliance disbursements: $450.3M; year-end Alliance disbursement results are below target as a result of ongoing BSE challenges.

*Customer Loyalty Index (CLI) includes customer satisfaction and perception of value obtained from FCC services. The maximum possible score is 5.77.
**FCC's reputation index is very good at 134, which the corporation seeks to maintain.
***Targets for 2004-05 were established based on historical disbursement levels prior to recent market distortions such as BSE.

FCC Balanced Scorecard 2004-05 Results

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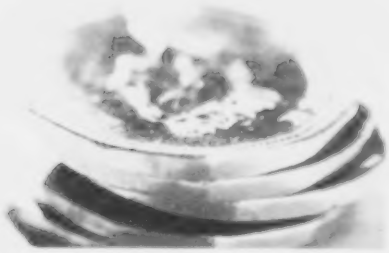
Corporate Strategies 2004-09	Strategic Initiatives 2004-05	Measures and Targets
Improve customer choice by developing alternate delivery channels.	• Customer Service Centre (CSC) firmly established as an alternate channel with direct lending.	• CSC Alliance loan processing: 2004-05: $558M. • CSC dealer and retail lending: 2004-05: $120M. • CSC inbound calls: 2004-05: 50,000. • CSC outbound calls: 2004-05: 15,000.
	• Establish e-business as a delivery channel.	• Alliance e-solutions: 2004-05: Loan origination; NEDFP[1] site.
		• Customer e-solutions: Online loan application for scorecard lending and lending process workflow Registered users: 2004-05: 11,000.
	• AgExpert: integrated and profitable AgExpert business unit.	• AgExpert revenue: 2004-05: $2.40M. • Unique AgExpert customers: 2004-05: 17,300 Target adjusted to 15,900[2].

NEDFP – National Equipment Dealer Finance Program

[2] Unique AgExpert Customers target was adjusted to 15,900 customers to align with $2.40M AgExpert revenue target, which was previously revised



2004-05 Results

- CSC Alliance loan processing: $450.3M; disbursements were below target as explained on page 21.
- CSC dealer and retail lending: $145M.
- CSC inbound calls: 59,268 calls; average speed of answer: 10 seconds.
- CSC outbound calls: 11,185 calls; outbound calls were slightly below target but the total number of customer contacts managed by the CSC was 82,447 versus the anticipated volume of 75,000. In addition to inbound and outbound calls, the CSC completed 11,994 additional customer administration tasks.
- Improvements to the Alliance portion of the FCC website included improved functionality to online disbursement requests and the online reporting pilot project. Development of the Alliance, NEDFP and customer portals has been incorporated with the enterprise integration project.
- Customer e-solutions: 13,649 users registered.
- AgExpert revenue: $1.7M; AgExpert revenues increased by 42% over 2003-04 revenues. However, sales were below the target of $2.40M.
- Unique AgExpert customers: 15,600.

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FCC Balanced Scorecard 2004-05
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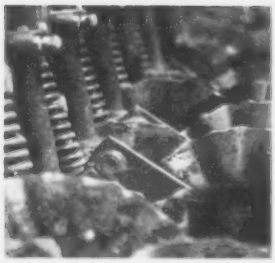
Corporate Strategies 2004-09	Strategic Initiatives 2004-05	Measures and Targets
Broaden revenue mix with new products and services.	• AgriSuccess: A comprehensive suite of training and management information offerings to enhance producer and agribusiness management practices.	• AgriSuccess participants: 2004-05: 1,500. • AgExpert training participants: 2004-05: 1,700. • Advanced Farm Manager training: 2004-05:100 participants annually. • AgExpert newsletter distribution[1]: 2004-05: 15,000. • AgriSuccess Journal distribution: 2004-05: 12,000.
Introduce lending products for new and traditional segments.	• Insurance: Full suite of insurance products to complement FCC's core business product suite.	• Life and Accident Insurance sales: 2004-05: $9.92M 2004-05: Develop and launch three new insurance offerings: insurance for Advancer Loan; term insurance (referral); group benefit plan.
	• Innovative and actively managed product suite.	• Product suite: 2004-05: Product pricing strategy implemented as per plan. • New product penetration business plan targets achieved. Target of 43% of total Farm Finance and Agribusiness approvals made on products developed within the last five years.
Implement Customer Relationship Management (CRM).	• CRM implementation and integration into ongoing operations.	• 2004-05: Implement CRM Wave 2 and long-term structure in place.

[1] AgExpert newsletter was renamed the AgriSuccess Express e-newsletter



2004-05 Results

- AgriSuccess participants: 1,626.
- AgExpert Training participants: 2,120.
- Advanced Farm Manager training participants: 40. Marketing plan is in place for next fiscal year, to target the offering of this intensive course.

- AgExpert newsletter distribution: 14,498.
- AgriSuccess Journal distribution: 13,087.

- $9.76M total premiums received.
- Term insurance referral and group benefit plan projects were removed from the 2004-05 initiative list due to other corporate priorities.
- Insurance product for Advancer Loan was designed and premium rates set. The planning phase of the auto premium generator project was completed by IT, with the execution phase slated for completion in early 2005-06. This application enables FCC to sell and administer creditor insurance for the Advancer Loan product. The Advancer Life Insurance will be released in May 2005.

- Product pricing strategy completed with recommendations for fiscal 2005-06.

- 45.9% uptake of total Farm Finance and Agribusiness approvals were made on products developed in the past five years.

- The introduction of an enterprise integration project altered CRM targets as follows: the focus for 2004-05 was to optimize CRM Wave 1, focusing on process improvement and data integrity. Wave 1 optimization was implemented successfully. Additional user training and standardization of procedures were also implemented. Wave 2 pre-planning analysis concluded that efficiencies will be gained by incorporating further improvements into the enterprise integration process portal projects.

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FCC Balanced Scorecard 2004-05 Results

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Corporate Strategies 2004-09	Strategic Initiatives 2004-05	Measures and Targets
Ensure customers perceive value in the relationship.	• Develop internal marketing research capacity to enhance understanding of customers.	• 2004-05: Every customer with a new loan surveyed; Every exiting customer surveyed.
	• Improve value-added service levels and capacity with a customer-driven focus.	• 2004-05: Central reporting for Post-Loan and Exit Survey.
		• Successful, on-budget completion of Customer Loyalty Index (CLI).
Grow awareness with target publics.	• Design quantifiable metrics that reveal impact of brand/communication activities on sales and customer loyalty.	• 2004-05: Develop and implement corporate reputation action plans.
	• Increase reputation through the innovative use of community investment funding and strategies aimed at non-customer stakeholders.	• 2004-05: Improve Corporate Reputation Index (CRI) re: "contribution to community."
Grow the value of FCC Brand Equity.	• Implement public campaign to foster pride in agriculture.	• 2004-05: Implement national advertising campaign.
	• Full implementation of national speakers bureau.	• 2004-05: Increase visibility with target audiences.

2004-05 Results

- Process for Post-Loan and Customer Exit Survey activated. The national research panel, FCC Vision, was activated and was used to explore loan renewal preferences. The panel now has over 2,000 members.

- Central reporting was activated. At year end, 6,282 current and former customers had responded to the Customer Experience Scoreboards. In order to implement action plans to improve satisfaction, sales management is notified about survey scores that fall below given satisfaction thresholds.
- CLI was not conducted in 2004-05 due to budget restraints.

- An integrated marketing communication strategy was developed and multi-divisional planning conducted. This included the exploration of measurement options for corporate social responsibility and corporate reputation, planning sessions, developing an integrated communication strategy and calendar of activities. A draft value proposition and internal benchmark survey were prepared.
- A total of $655,000 was invested in communities across Canada (including World Food Day, First Aid on the Farm events, Holiday Cheer campaign, Canada Agricultural Safety Week support, FCC 4-H National Scholarship Program and other community investment initiatives).
- FCC lent a helping hand in communities through the Employee Volunteer and Matching Programs, including an employee-matching donation of over $27,000 in support of tsunami aid.
- Over 489 AgriSpirit Fund applications were received from community groups across Canada and 38 projects were chosen.
- CRI was not conducted in 2004-05 due to budget restraints.

- Based on public consultations, the program was adjusted as follows: creation of website to promote customer products and profiles, journalism student education in agriculture and future enhancements to FCC's involvement in Agriculture in the Classroom.
  - CanadianFarmersMarket.com website was launched in January 2005. By the end of fiscal 2004-05, 87 customers had more than 118 products registered on the website.
  - Ag 101 on Highway 1 tour took place in February 2005 and was very successful.
  - The Agriculture in the Classroom organization renewed funding to develop curriculum that is used in schools.
- Speakers Market launched internally in September 2004 with speech templates, speaker guidelines and a speaker roster database. A feedback survey was also conducted.

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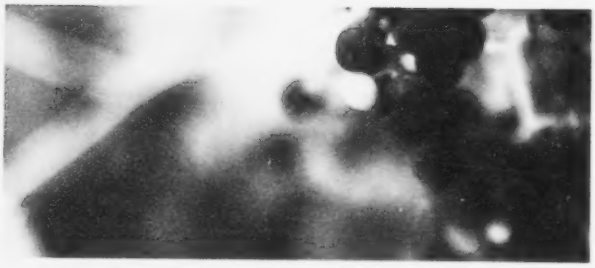
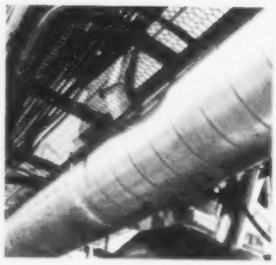
FCC Balanced Scorecard 2004-05 Results
People – unique people leading our success

Corporate Strategy Statement
FCC will be a top company to work for in Canada, with high employee engagement and a culture of innovation and learning as measured by the People Index.

Corporate Measure
The People Index (annual Employee Engagement Survey administered by Hewitt). Employee engagement score will move from 69% (2003-04) to 76% in 2008-09.

Corporate Strategies 2004-09	Strategic Initiatives 2004-05	Measures and Targets
Enhance leadership and employee engagement at all levels in the organization and build a learning organization.	• Enhance the workforce plan, including career paths, diagnostic tools and employee development plans.	• 2004-05: Identify 10 additional candidates for Leadership Development; complete workforce plan.
	• Implement integrated and improved internal communication strategy.	• 2004-05: Increase employee engagement to 70%.
Create and share knowledge.	• Foster a learning environment that helps employees to excel as leaders in future business practices and technologies.	• 2004-05: Implement Building Future Leaders initiative.
	• Measure and share output from 10 Communities of Practice (CoPs).	• 2004-05: Launch new CoP re: additional agricultural sector. Launch new CoP in Credit Risk/Commercial Lending.
	• Keep Knowledge Management (KM) intranet content fresh and responsive to user needs.	
Enhance Risk Management expertise.	• Enhance credit risk knowledge, tools and processes.	• 2004-05: Produce four agribusiness enterprise guides.
Make it easy for employees to do business.	• Align corporate capacity with business growth requirements.	• 2004-05: Implement corporate capacity planning.





2004-05 Results

- This year, eight additional employees were invited to participate in the Leadership Development Program for a total of 23 participants. The selection of new candidates was guided by workforce planning results and the identification of corporate areas of greatest need.
- The Workforce Plan was completed.
- Annual Employee Engagement survey completed in June 2004. Employee engagement score increased from 69% to 81%. This significantly exceeded 2004-05 goals.

- Framework for Leadership Learning at FCC was established and includes delivery of the Supervisory Development Program, Banff Centre Leadership Excellence sessions and the design and pilot of a new Focus on Results module. The framework also includes cultural transformation training and executive development. The Leadership Community of Interest continues to meet monthly and an informal network of those in supervisory roles has been established to share resources and information.
- The Agribusiness Finance CoP was launched successfully in October 2004.

- CoP effectiveness and KM outputs were measured using the third annual CoP benchmark measure (results improved in all areas), intranet tracking of access to KM and CoP content, feedback forms and a series of qualitative focus groups. These are key tools in KM's commitment to continuous improvement.

- Four new enterprise guides were completed: equipment dealers, feed mills, food processing and abattoirs. All existing guides, including vineyards and wineries, and greenhouses, were updated for posting on the intranet.

- Capacity planning software was selected and installed (including time tracking, resource management and scheduling functionality). Testing, user training and a controlled deployment phase were completed as planned.

FCC Balanced Scorecard 2004-05 Results

Service – make it easy for customers to do business with us

Corporate Strategy Statement

FCC strives to be easy to do business with – as measured by its Customer Experience Index.

Corporate Measure

Customer Experience Index =
Service Provision Index + Customer Turnover Measure

Corporate Strategies 2004-09	Strategic Initiatives 2004-05	Measures and Targets
Ensure appropriate risk management practices in all areas.	• Comprehensive suite of portfolio risk management tools that reflect leading-edge practices, including improvement of credit risk tools and processes; update audit programs for consistency with changing environment/industry standards.	• 2004-05: Initial implementation of Portfolio Risk Management tools.
Improve integration of business information systems.	• Improve service levels and capacity with customer focus. • Implement core systems integration to ensure seamless installation of major systems. • Replace loan servicing system.	• 2004-05: Establish high level project sequencing; assess internal versus external resource requirements. • 2004-05: Initiate project based on outcome of high-level project sequencing and resource capacity.
Enhance successful strategy integration and execution.	• Fully implement project portfolio management. • Align corporate capacity with business growth requirements.	• 2004-05: Create corporate project work plan. • Implement revised activation process.
Optimize productivity through continuous process improvement.	• Align Information Technology system development and implementation with corporate prioritized project list. • Broaden Business Process Re-engineering (BPR) to encompass continuous improvement and innovation.	• Implement capacity planning tool. • Implement BPR recommendations : Translation and Official Languages, Administration.
Build partner/alliance systems infrastructure and applications.	• Expand/refine service delivery model for partners.	• 2004-05: Develop Alliance e-solutions (online portal). • Develop online transactional capability.

2004-05 Results

- A comprehensive suite of leading-edge tools was developed to help FCC manage risk: Application Scorecards, Risk Scoring and Pricing System (RSPS), Strategic Credit Risk Model, Loan Loss Allowance Model, Portfolio Vision, and the Portfolio Diversification model. These tools are continuously evaluated to ensure they reflect industry best practice and appropriately quantify risk. This year, RSPS, Application Scorecards, value-added lending pricing and loan loss allowances were evaluated and reviewed and the Portfolio Vision and Diversification Strategies were updated.

- Phase 1 of the enterprise integration project consisted of a high level analysis phase, which resulted in a multi-year strategy and roadmap. Several initiatives to optimize integration were defined and started. Enterprise integration initiatives will ensure projects are integrated, resulting in a seamless and enhanced customer experience across all channels, business units and people.

- Vendor decision deferred pending completion of the Solution Sales Origination Process redesign. Vendor selection is now targeted for 2005-06. Replacement of loan servicing system targeted for 2007-08.

- Project Portfolio Management processes and templates revised to incorporate requirements of enterprise integration project. Projects on the 2004-05 corporate work plan were activated. The registered project list and corporate work plan for 2005-06 were approved and the initial sequencing of initiatives was completed.

- Implementation of the capacity planning software (phase 1) is progressing as planned.

- BPR is now part of the Enterprise Integration and Innovation (EII) division. BPR's methodology, along with continuous improvement, change management and innovation, are components of the business process methodology going forward. Loan Maintenance recommendations are being implemented and, where appropriate, integrated with related EII initiatives. Translation and Official Languages, and Administration Services recommendations were implemented, with some initiatives continuing into 2005-06.

- Alliance online portal project requirements and functionality have been incorporated into future enterprise integration and IT projects.
- Online reporting for alliance partners was rolled out, providing partners with the ability to access customer-specific reports through an online secure connection. Approximately 90 per cent of eligible partners are using online services.

FCC Balanced Scorecard 2004-05 Results

Financial success – the foundation of customer support

Corporate Strategy Statement

FCC will remain financially self-sustaining, through profit and operating efficiency, in order to grow its support for agriculture and customers.

Corporate Measure

Return on Equity (ROE): 2004: 10.74%, 2008: 12.49%
Debt-to-equity ratio: 10:1 or better
Efficiency ratio: under 45%

Corporate Strategies 2004-09	Strategic Initiatives 2004-05	Measures and Targets
Maintain self-sustaining independent growth.	• Implement systems and processes to improve profitability reporting and analysis.	• 2004-05: Improvements in profitability reporting and analysis.
	• Diversify investors and funding sources.	• 2004-05: Maximize margins. • 2004-05: Efficiency ratio: under 45%. • Return on equity (ROE) 2004-05: 10.74%. • Debt-to-equity ratio 10:1 or better.
	• Maintain corporate efficiency ratio by seeking internal efficiencies and rewarding them.	

2004-05 Results

- One of the major improvements involves technical upgrades to the PeopleSoft Financials system. Since the upgrade is not scheduled for implementation until 2005-06, improvements during 2004-05 focused on report design for implementation once the upgrade is complete. We commenced work to improve profitability reporting for alliances, products and customers.
- Funding from new investors: $212M.
  Funding from new funding instruments/sources: $740M (includes $212M from new investors).
- Efficiency ratio: 40.3%.
- ROE : 11.6%.
- Debt-to-equity ratio: 9.5:1.

Kolkman family

The customer experience

It's Thursday at the Gerica Pork Inc. farm in Monkton, Ontario and everyone is on their own path. Gerald Kolkman strolls down to the barn to check on their 300-plus sows while his co-owner and wife Veronica sets off down the road to her part-time nursing job. Their four children board the school bus.

This is the 30th year that Gerald has lived on this land. He rented the property from his father for a couple of years and started out with a 100-sow farrowing operation. He has steadily grown his business, and his family, ever since.

The farm has undergone changes through the years. The Kolkmans converted the barn to liquid manure, added finishing pigs, installed a liquid feeding system and increased the barn size on several occasions.

Today, Gerica Pork is a full farrow-to-finish operation with about 400 acres of crops.

FCC has been involved with the Kolkmans at every step, right from Gerald's first loan. "The human connection is very important," Gerald says. "I have always tried to surround myself with positive people who share my vision of how to go forward. You can't have a relationship with a machine or with a piece of paper. You need a person on the other end of the phone, someone who comes out to the farm to see what you're trying to accomplish. That's been FCC."

"With our largest expansion, FCC really believed that it was a good idea and a good investment. That's very positive," Veronica adds.

"Our goal is to build a strong relationship with our customers, to be part of their management team and help them have all the information they need to make the best decisions for their operation," explains Area Vice-President Dan Bergen. "We are committed to our customers, not just for the life of their loan but for the life of their operation and now even beyond that with succession planning. We want our customers to see us as integral to their operation."

" With our largest expansion, FCC really believed that it was a good idea and a good investment. That's very positive. "

McLean family

Gary McLean, a 10-year customer who operates a lifestyle farm near Newport, Nova Scotia agrees. Gary, wife Patricia and their three children have a cattle and grain operation and run the Featherlite livestock trailer dealership for Nova Scotia. They also make time to operate a convenience store and gas bar. "You're not a number on a piece of paper at FCC," he says.

For the McLeans, FCC is a family matter. Their two sons, Scott and Mark, used the FCC First Step Loan to buy cattle and equipment. The loan is designed for new entrants to agriculture with a limited credit history.

"They were able to buy a few cattle and some equipment," says FCC Account Manager Bruce Bishop. "They knew they could handle repayment with their outside jobs. No matter what journey you go on, it all begins with one little step. They're young but they both have their feet on the ground, so this was the opportunity to start them growing their future."

"They didn't just wave us off and say, 'He's just a kid' or 'He's just dreaming.' They really looked after us," Scott and Mark say. "It was encouraging to have FCC show confidence in us."

The First Step Loan and other loans and services at FCC have often been developed to address specific issues in an ever-changing agriculture industry.

"We listen to our customers and others involved in agriculture," says FCC Director of Product and Management Solutions Derwin Arnstead. "They tell us what they need to operate and we come up with something that will meet those needs and is flexible. In fact, more that 40 per cent of the business that FCC did in 2004 was through loans that didn't exist five years ago."

In addition to new loans, FCC made a decision to help producers and business operators enhance their management skills."Five years ago, we had no idea how much interest we would generate by developing a parallel business service side to FCC lending operations," says FCC Vice-President of Market and Product Development Lyndon Carlson. "What we knew is that to meet the challenges of the global marketplace, producers were working to become better managers and they wanted to learn more. We decided to help them with that."

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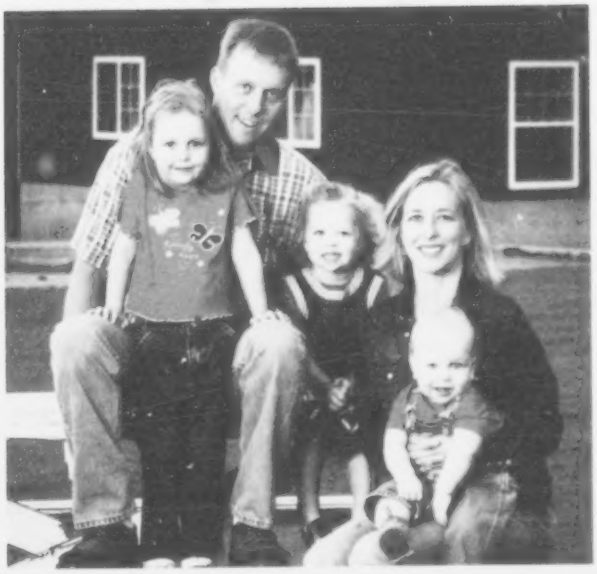
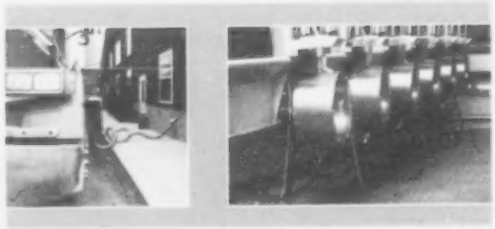


MacNair family



FCC offers management training opportunities and publications through its AgriSuccess operations. The Advanced Farm Manager program is an intensive, eight-day session covering strategic business planning in small groups. One of its strengths is plenty of individual instruction.

Gerald Kolkman took time from his Ontario hog operation to attend a workshop on pork futures with Dr. Larry Martin from the George Morris Centre that was arranged by FCC. The course provided him with valuable background information.

"I was never familiar with terminology like an option or the futures market. I never felt comfortable," Gerald says. "When we went through 1998 and rock bottom prices for pork, people suddenly became acutely interested. I was one of them."

AgExpert farm management computer software is another example of FCC's extended services. The accounting software AgExpert Analyst helps track income, expenses and GST and prepare financial statements on a personal computer. This year, given the new federal Canadian Agriculture Income Stabilization (CAIS) program, AgExpert adapted the software so that producers could use the accounting program to easily and accurately track inventories and generate the forms needed for CAIS.

"Farmers have massive amounts of information to track and take into consideration long before seeding," explains FCC AgExpert General Manager Rob Schmeichel. "They're thinking about disease, weather, farm input costs, rotations and benefits of herbicide, pesticide and fertilizer. We've designed AgExpert Field Manager to track information needed to find the best answers to those questions."

Ken and Kara MacNair run Craiglea Holsteins, a dairy operation near Enderby, British Columbia. Kara has been using AgExpert Analyst software. "This program is really oriented to farms, to bookkeeping on a cash and accrual basis. It's working great. And any time we have questions, I love that there is a 1-800 number to call. At one point I found something that wasn't really working for me and told one of the guys, and right away he said, 'Ok, we'll look into this.' That's awesome," Kara says.

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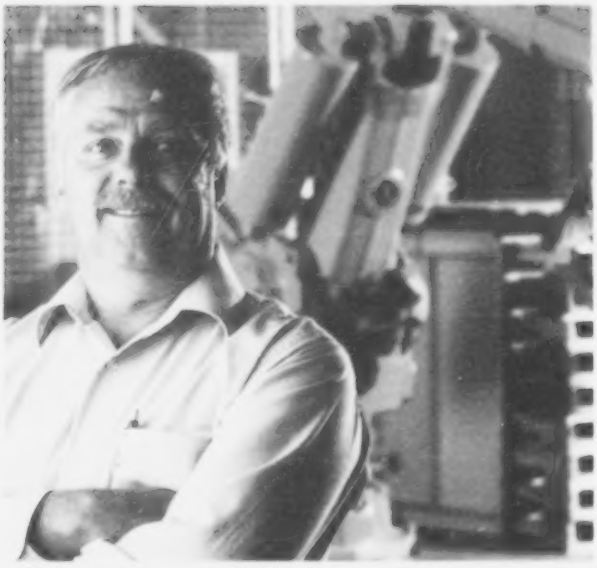


François Tétreault

These are some of the ways FCC tries to make the customer's life easier. When times are difficult, this philosophy is even more important.

Dan and Hertha Penner appreciate having a lender stand by them during challenging times. They faced difficulties on their hog, poultry, grain and oilseed operation in Killarney, Manitoba in 2004 when the hog barn lost its contract. Eventually, they were able to get a new contract. In the meantime, FCC made payment adjustments to help keep the operation functioning smoothly.

Keeping up with increased production and investing in their business is a challenge for Les Grains Semtech. The St-Pie, Quebec seed producer has business lines of soybean seeds, wheat, barley and oat seed production, domestic grain marketing for animal feed and since 2000, an IP (identity-preserved) factory with production solely for soybean export.

Semtech owner François Tétreault says it's the people and knowledge that keeps him with FCC. "I don't just believe it, I know it. FCC employees are specialists in agriculture and the agri-food industry. They believe in this sector and those working in it. The proof lies in their programs and the flexibility of the programs offered."

In the coming year, FCC will be redesigning systems and processes to further enhance the customer experience. Creating consistency of service and allowing employees more time with customers is driving this change.

"Customers have told us that they want to have deeper relationships with our people," says Sophie MacDonald, Vice-President of Enterprise Integration and Innovation. "They want more face-to-face time and they want it to be easy and quick to find out about their financing. We aim to give them that." MacDonald is responsible for making change happen at FCC.

"While customers won't see a lot of the work that is taking place behind the scenes, as we move to a more integrated business where all parts work together more efficiently, customers will benefit from the results.

"FCC is in this for the long term. We believe in agriculture and in our customers."

" I don't just believe it, I know it. FCC employees are specialists in agriculture and the agri-food industry. They believe in this sector and those working in it. The proof lies in their programs and the flexibility of the programs offered. "

Ammie Van Straaten—Account Manager, Stratford, Ontario

The employee experience

"It's all about the people." That's what you'll hear over and over when you ask our employees and customers what they like best about FCC.

We have a committed team of more than 1,100 employees, located in towns and cities across Canada. They are dedicated to serving Canadian farmers and agribusiness operators. They stand behind the success of those customers.

Our employees are truly the foundation of everything we do at FCC. They have a deep knowledge of agriculture and a passion for helping Canadian producers and agribusiness operators realize their dreams. "Most of us have grown up in the agriculture industry. It's a lot easier to talk with your customers when you can sit there in the barn or across the kitchen table and discuss current trends in the marketplace or the day-to-day activities on the farm," says Ammie Van Straaten, an FCC Account Manager in Stratford, Ontario. Van Straaten grew up on a dairy farm in Ontario, and says after earning her commerce degree in agricultural business, joining FCC was an "easy choice."

"FCC is respected in the farming community because we're in the business of helping farmers out. I think they want to be with a lender that's going to help them through those hard times and not just stick with them through the really good times," she says. Van Straaten is typical of the people who make up the FCC family across Canada. She's diligent, knowledgeable and enthusiastic. And above all, she's committed to the future of agriculture and rural Canada.

For our employees, helping to build rural Canada is more than just a job. And it doesn't stop at the farm gate. In 2004-05, employees contributed more than 3,900 hours to FCC community projects, supporting hunger and rural safety programs. Our employees are also personally involved in a variety of community activities wherever they live across Canada.

$24,488 was raised by five FCC employee teams for Canadian Cancer Society's Relay for Life.

There are countless examples of FCC employees going that extra mile. There's Bill Charlton, District Manager in Lindsay, Ontario, who served as the President of the Ontario Institute of Agrologists. The Certified Management Accountants of Canada awarded our Chief Financial Officer, Moyez Somani, the prestigious designation of "Fellow." George Klosler, an Account Manager in Woodstock, Ontario, was named President of the Canadian 4-H Council. In Rivière-du-Loup, Quebec, Claire Bérubé came up with an idea to have donated beef cut and packaged for food hampers, as part of FCC's Holiday Cheer campaign. She and fellow Account Manager Francis Boucher even donated their own beef.

Our Senior Vice-President of Strategy, Knowledge and Reputation, Kellie Garrett, is incoming Vice-Chair of International Association of Business Communicators Research Foundation at the international level and counsels parents of autistic children. And Matt LaRocque, a Customer Service Representative in Regina, is training as a top prospect for Canada's national cycling team. Truly, FCC people have a passion for achieving great things in all aspects of their lives.

Unleashing the passion and the unique talents of our employees is the key to our continued success, and that of our customers. Because of that, we're always looking at how we can make FCC a better place to work. In 2004-05, we continued to transform our culture, creating an environment that emphasizes teamwork, respect and a healthy balance between high performance and individual well-being.

Our employees live by a set of 10 cultural practices that outline expected behaviours with colleagues, customers, partners, suppliers and stakeholders. The cultural practices emphasize being fully accountable for one's impact on business results and people, for delivering on promises, creating a safe environment for others to fully contribute and building committed partnerships with others.

What's the payoff? Better relationships between employees in all parts of the company. Employees who are even more inspired to reach beyond the ordinary. And, an even better experience for the customers we serve.

"For me, the cultural practices help remind us that our behaviour must be directly linked to being truthful and respectful towards others and ourselves," says Ste-Foy, Quebec District Manager Jocelyn Jeffrey. "I think these two words, truth and respect, are linked to most of the cultural practices. So that means being able to recognize them, know them and manage to integrate them into our work and into our way of dealing with people."

Marg Ellard, Director of Portfolio Accounting and Systems Support at FCC's Regina corporate office, has been with the company for seven years. She says the changes that are under way will have a huge impact. "I think this is probably the most important undertaking that FCC has been involved with since it opened its doors. I believe that in the end, it's going to transform how we deal with each other, how we deal with our customers, and ultimately impact our bottom line."

FCC Treasury has raised $13.1 billion in funding for agriculture.

Another key factor that impacts the bottom line is how efficiently employees feel they can do their work. FCC has grown and added new, more complex business lines and the demands on internal systems and processes have increased. Employees have told us that we need to streamline all the work that happens behind the scenes so it's easier to do business. They've told us that they want to spend more time with customers, and less time navigating technology, looking for information and filling out forms. We are developing a more seamless and efficient approach to doing business so all employees can focus on consistently giving customers great experiences.

FCC is committed to a true climate of bilingualism for our customers and employees. Canada's two official languages – English and French – receive equal status. Our employees view official languages as part of our public policy role, and as good business. Both languages are regularly spoken in our business and social settings.

We believe in continuous learning. Keeping up with the latest trends in agriculture or a specific discipline – whether information technology, marketing or accounting – is a key to high performance. At FCC, we support the learning needs of our employees by budgeting an amount annually – 11.8 per cent of our salary dollars in 2004-05 – to ongoing education.

We also offer in-house training. For example, we developed Learn the Business, a series of learning modules to help employees enhance their knowledge about FCC, our customers and the industry. And, every year, we host employee conferences across Canada to help our people better understand and focus on our corporate priorities.

To share our knowledge, we've formed communities of practice in FCC. These are groups of employees who meet during the year to discuss trends and issues in specific sectors. We have communities for agribusiness, aquaculture, beef, crops, dairy, forestry, greenhouses, pork, poultry, vineyards, operating environment, strategic planning and leadership.

Sometimes, the best way to learn is by doing. FCC employees have diverse opportunities to move around the organization into sometimes unfamiliar jobs, helping them build new knowledge and skills.

FCC Essex, Ontario staff raised $2,700 by racing carts around a track in support of Huntington's disease.

Take Sandy Kirtzinger, for example. She started with FCC as an Account Manager before getting an opportunity to move into the Regina corporate office as a member of the Business Process Re-engineering team. That experience allowed her to make the next step in her career – heading to Camrose, Alberta as a new District Manager in 2004.

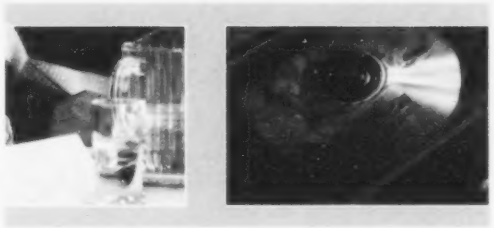
"I think FCC has really opened their arms to improving the employee experience," Kirtzinger says. "They really go the extra mile to ensure that the employee has those skills to be able to do their job better or perhaps move on to a different part of the company and a different career."

"High-performing organizations are built by employees who feel valued, and are engaged and inspired by an environment that brings out the best in them," says President and Chief Executive Officer John Ryan. "That belief truly begins at the top. It drives all of our people practices and breathes life into our commitment to make FCC a great place to work."

"Those are factors in creating a superior employee experience. At the end of the day, it's the opportunity to work with great people and really make a difference in lives of rural Canadians that helps FCC stand out," says Vincent Giard, District Manager in St-Hyacinthe, Quebec. "The part of my job I appreciate the most is working with people, either working with my team or helping them work with customers. When I get up in the morning, I say to myself, 'It's going to be a good day.'"

Attention to people

How do we know we're creating a great "employee experience" at FCC? Here are a few indicators. We have a low voluntary turnover rate of 6.5 per cent. Even more impressive are the results of the most recent employee engagement survey, conducted by Hewitt Associates. The confidential survey includes a wide range of employee satisfaction measures from trust of senior management to happiness with pay and benefits. In the 2004 survey, FCC scored 81 per cent, up substantially from a score of 69 per cent in 2003. FCC was ranked 35th on the 50 Best Employers in Canada list, published by the Globe and Mail's Report on Business.



Software, loans and a lot more

Today's business manager has plenty to think about. There are production, personnel, marketing and risk considerations. Retaining good employees and having a succession plan are important. And there are retirement income, estate planning and tax implications to factor in.

To help navigate the complexity, FCC offers a full menu of agriculture financing and business management information, training and advice. Below are the highlights of what FCC offers, with full details available on the FCC website.

Software

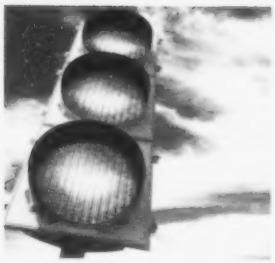
AgExpert Analyst
With AgExpert Analyst accounting software, customers can enter income and expenses, track inventory and capital assets, complete GST and CAIS reporting, and produce financial statements.

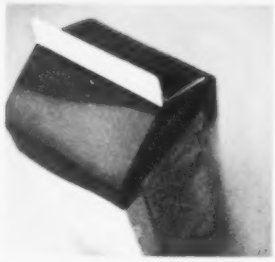
AgExpert Field Manager
AgExpert Field Manager allows customers to track seeding/planting schedules, fertilizer applications, yield and herbicide use for their entire operation. All of this field and crop record-keeping and planning is available on a desktop PC and palmOne™ handheld.

Learn from the best
Get the most from AgExpert with software training. There's an introductory course for just getting started, or advanced training to refine management techniques.

Ultimate Service
AgExpert customers can subscribe to receive annual support services providing them with daily access to knowledgeable specialists.

More than 13,000 people receive FCC AgriSuccess Journal.





Management training

AgriSuccess Workshops

Each AgriSuccess workshop focuses on a specific area of farm management such as financial, human resource, succession planning, estate planning and goal setting. AgriSuccess workshops go beyond theory. Participants leave with concrete steps to improve their operations – immediately.

Farm Financial Management – Know where you stand

Participants learn how to analyse their financial statements and ratios so they can make better management decisions and improve profitability.

Farm Financial Management – Develop your management accounting system

Participants learn how to prepare annual budgets using cash and accrual methods, set profit targets, interpret data and secure key supplier relationships.

Human Resource Management – Get the best

Participants learn how to recruit and find the right employees for their operation.

Human Resource Management – Keep the best

Participants learn how to inspire, support and keep good employees.

Advanced training

Advanced Farm Manager

In two, four-day modules, customers review many aspects of managing their farm operations, such as:

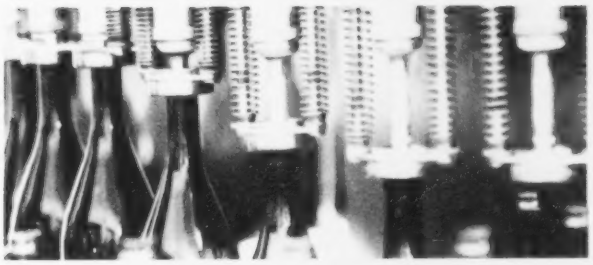
- Agricultural environmental review
- Environmental policies
- Visioning and strategic planning
- Human resource management
- Succession planning
- Financial accounting and management
- Price risk management
- Managing strategic alliances

Publications

It's especially important to check the lay of the land in a constantly changing industry like agriculture. Just because one plan led to success doesn't mean the same path will reap similar results. That's why FCC offers the following publications:

AgriSuccess Express. Every week, readers get the latest in agriculture news with our free electronic newsletter. It provides provincial, national and international news and trends that affect agriculture – and the bottom line.

AgriSuccess Journal. This free national farm management magazine published every two months offers tips and insights from other producers and industry experts.



Financing that fits

The right loan with a flexible combination of terms, security and payment schedule can make the road a whole lot smoother. Our loans are tailored to the needs of each customer.

Advancer Loan

Use this pre-approved, secured loan with the flexibility to re-advance funds at your discretion.

American Currency Loan

If you derive a lot of your revenue in U.S. dollars, you can borrow and make payments in U.S. dollars.

Capacity Builder Loan

Purchase quota or breeding livestock with pre-approved financing for up to one year and the option to capitalize interest.

Cash Flow Optimizer Loan

Invest funds that would normally go towards principal into other areas of your operation.

Construction Loan

Get interim financing for up to 18 months on construction projects including processing plants, cold storage and grain storage facilities. Use the money to build, and only pay when your project is done.

Enviro-Loan

Defer principal payments while constructing, improving or expanding your operation when you improve environmental facilities.

Farm Builder Loan

Defer your principal payments while you build, with interim financing for up to 18 months on construction projects.

First Step Loan

Use your post-secondary education to buy your first farm-related asset.

Flexi-Farm Loan

Defer principal payments for up to one year to take advantage of opportunities or ease cash flow during adverse conditions.

Herd Start Loan

Take time after starting or expanding your livestock operation. Use your cash flow to grow your business.

1-2-3 Grow Loan

Manage your cash flow with interest-only payments until you get a return on your investment.

Opportunity Loan

Fund your agribusiness expansion with principal payment holidays for up to 12 months.

Payday Loan

Use your off-farm income to start or expand your farm business.

Performer Loan

Get rewarded with lower interest rates when your business achieves pre-set financial goals and ratios.

Plant Now – Pay Later Loan

Defer payments in your horticulture operation until your new plantings start to generate cash flow.

Spring Break Loan

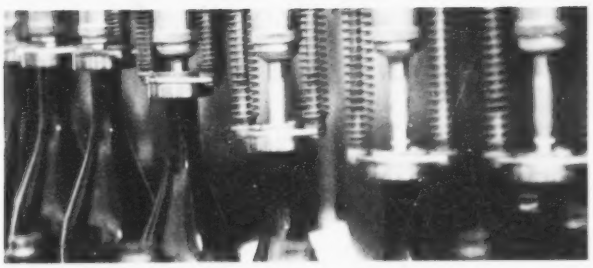
Match your payment schedule to the forestry harvesting season.

Stop and Grow Loan

Defer principal payments at your woodlot as saplings grow into profits.

Transition Loan

Help the next generation purchase your property at retirement. Get the equity from your farm without risk.



Financing that fits

The right loan with a flexible combination of terms, security and payment schedule can make the road a whole lot smoother. Our loans are tailored to the needs of each customer.

Advancer Loan

Use this pre-approved, secured loan with the flexibility to re-advance funds at your discretion.

American Currency Loan

If you derive a lot of your revenue in U.S. dollars, you can borrow and make payments in U.S. dollars.

Capacity Builder Loan

Purchase quota or breeding livestock with pre-approved financing for up to one year and the option to capitalize interest.

Cash Flow Optimizer Loan

Invest funds that would normally go towards principal into other areas of your operation.

Construction Loan

Get interim financing for up to 18 months on construction projects including processing plants, cold storage and grain storage facilities. Use the money to build, and only pay when your project is done.

Enviro-Loan

Defer principal payments while constructing, improving or expanding your operation when you improve environmental facilities.

Farm Builder Loan

Defer your principal payments while you build, with interim financing for up to 18 months on construction projects.

First Step Loan

Use your post-secondary education to buy your first farm-related asset.

Flexi-Farm Loan

Defer principal payments for up to one year to take advantage of opportunities or ease cash flow during adverse conditions.

Herd Start Loan

Take time after starting or expanding your livestock operation. Use your cash flow to grow your business.

1-2-3 Grow Loan

Manage your cash flow with interest-only payments until you get a return on your investment.

Opportunity Loan

Fund your agribusiness expansion with principal payment holidays for up to 12 months.

Payday Loan

Use your off-farm income to start or expand your farm business.

Performer Loan

Get rewarded with lower interest rates when your business achieves pre-set financial goals and ratios.

Plant Now – Pay Later Loan

Defer payments in your horticulture operation until your new plantings start to generate cash flow.

Spring Break Loan

Match your payment schedule to the forestry harvesting season.

Stop and Grow Loan

Defer principal payments at your woodlot as saplings grow into profits.

Transition Loan

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Plan to protect

AgriAssurances offers insurance protection for individuals, farm families and the business. Protect it all – up to $1.5 million. Coverage is designed specifically for agriculture. Customers can have a custom-built plan with no broker or extra paperwork.

Loan Life and Accident Insurance
Get a traditional loan and cover the full loan amount or just a portion. Premiums never increase.

Key Person Insurance
Protects business by insuring the most valuable asset – key people.

Payment Protection Insurance
Provides a two-year holiday on insured loans in the event of an emergency.

Level Coverage Insurance
Family or business partners can keep the business going with reduced or eliminated loan payments.

Profit with partners

Through FCC Alliances, we partner with 850 equipment dealers and 60 alliance partners that serve agriculture across Canada, such as cattle co-ops and crop input retailers. Our alliance partners provide products that producers want, and we provide the financing to bring the two together.

FCC Ventures provides equity and quasi-equity financing to businesses such as commercial-scale primary producers, food processors, equipment manufactures and ag-biotechnology companies.

We partner with other venture capital companies to ensure that even more capital goes into agriculture. When we invest, others invest with us.

FCC online services

Our customers can check their entire loan portfolio online, including principal and interest split, insurance expense, details and history – 24 hours a day.

Because land is a major asset of agriculture production, we publish a Farmland Values Report twice a year. It follows trends in land values across Canada over the past 10 years. Local land valuation data is available free on our website.

Other tools include a Farm Finance Kit, updated commodity futures prices and five-day weather forecasts for any area.

FCC customers can sell to the world at CanadianFarmersMarket.com, an FCC site designed to let the world know about our amazing customers. The site showcases high-quality products, ranging from award-winning wines to game meat, beef, fresh roses, jams and jellies.

The FCC Customer Service Centre handled 72,667 inbound and outbound calls in 2004-05.

Management's discussion and analysis

Overview of the MD&A

FCC Management's Discussion and Analysis (MD&A) provides management's perspective on the corporation's performance in fiscal 2004-05, an outlook for 2005-06 and risk management activities. The MD&A is presented in five sections:

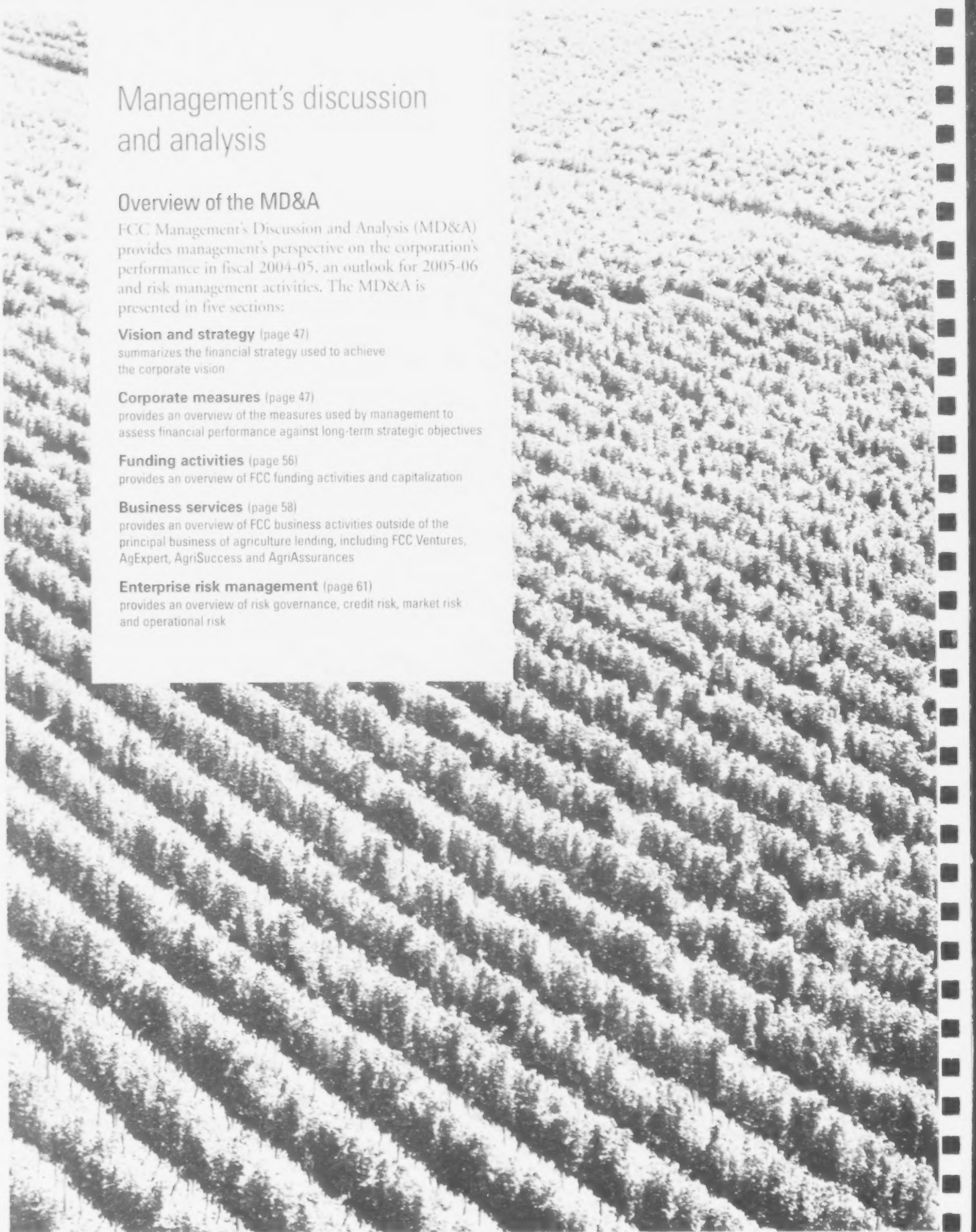
Vision and strategy (page 47)
summarizes the financial strategy used to achieve the corporate vision

Corporate measures (page 47)
provides an overview of the measures used by management to assess financial performance against long-term strategic objectives

Funding activities (page 56)
provides an overview of FCC funding activities and capitalization

Business services (page 58)
provides an overview of FCC business activities outside of the principal business of agriculture lending, including FCC Ventures, AgExpert, AgriSuccess and AgriAssurances

Enterprise risk management (page 61)
provides an overview of risk governance, credit risk, market risk and operational risk



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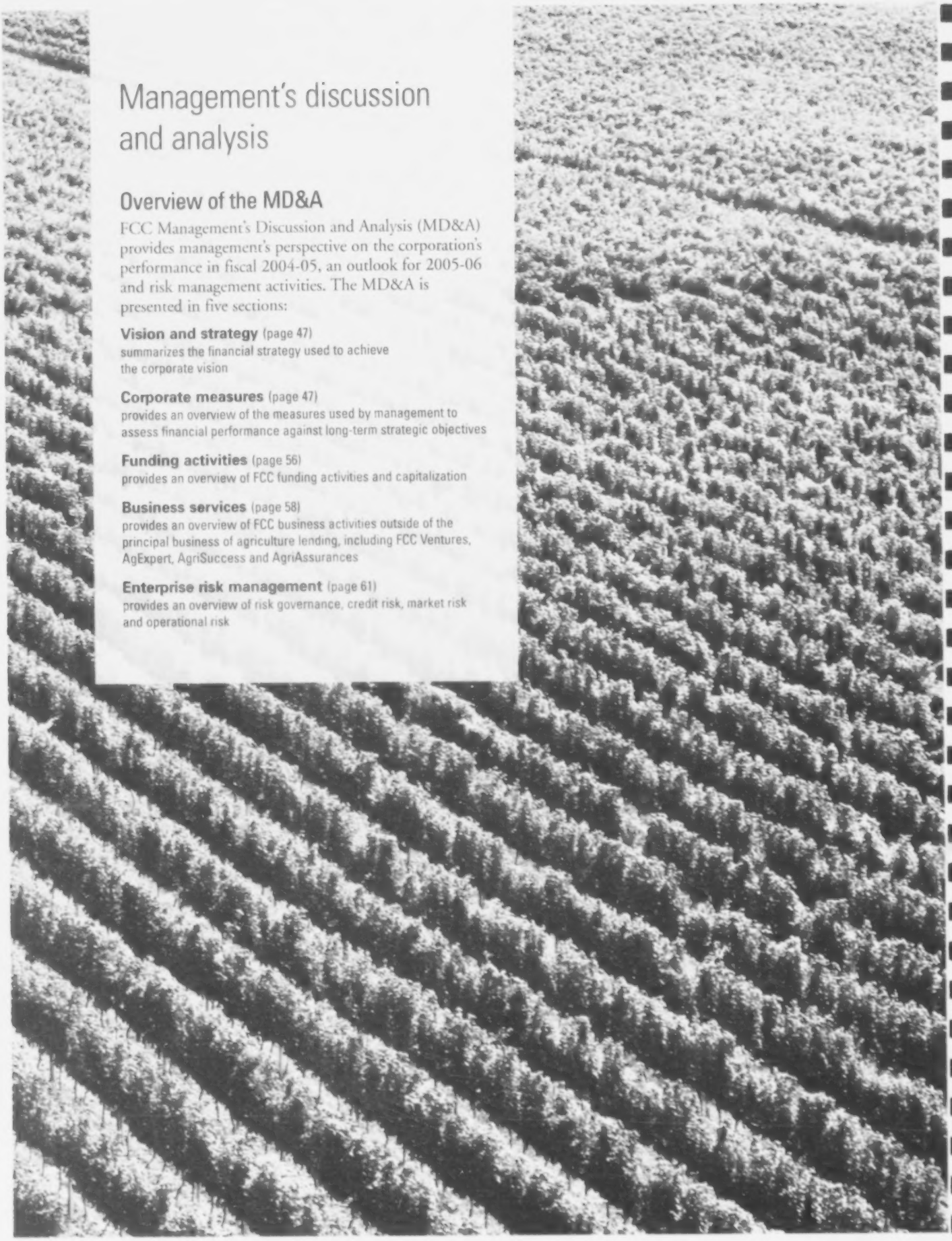


Caution regarding forward-looking statements

The MD&A includes forward-looking financial information based on certain assumptions that reflect management's planned course of action with the most probable set of economic conditions. By their nature, assumptions are subject to inherent risks and uncertainties. There is significant risk that actual results may vary, and that the differences may be material. Some factors that could cause such differences include changes in general economic and market conditions, including, but not limited to, interest rates. To manage within this volatility management routinely reforecasts financial results, as early as the first quarter.

Vision and strategy

Vision: ***Visionary leaders and trusted partners – putting the power of our people's specialized knowledge and innovation to work for farm families and agribusiness across Canada.***

In order to fulfil the vision, FCC must achieve financial success. It is important to generate a sufficient rate of return from operations to remain financially self-sustaining, as well as fund growth and strategic initiatives. The corporation must also have the capability to withstand the market fluctuations intrinsic to the agriculture industry while continuing to support our customers through all economic cycles. The corporation is growing and is expanding products, which now extend beyond financial products to business services offering specialized knowledge to our customers. The corporation has built a solid financial foundation, ensuring ongoing viability through sound financial and risk management practices.

Corporate measures

The following discussion outlines the key measures used to analyse financial success and performance against strategic objectives:

Portfolio growth: In order to generate a sufficient rate of return, we must grow our number one revenue-generating asset – our portfolio. There are a number of factors contributing to portfolio growth, including net disbursements, loan maturities, loan renewals and prepayments. To assess performance and opportunities, we focus primarily on net disbursements, which is the largest contributor to portfolio growth. Principal Not Due (PND), the principal balance owing on loans, is used to assess the growth between business lines, geographic areas and enterprises. It represents the principal balance only and excludes items such as arrears and interest accruals that are included within loans receivable.

Credit quality: In conjunction with portfolio growth, we assess the credit quality of the portfolio to determine the amount of allowance for credit losses that is required based on the risks within the portfolio and the industry. Loans in arrears and impaired loans are important indicators of risk within the portfolio. The level of allowance required determines the provision for credit losses, which is the expense charged to the income statement.

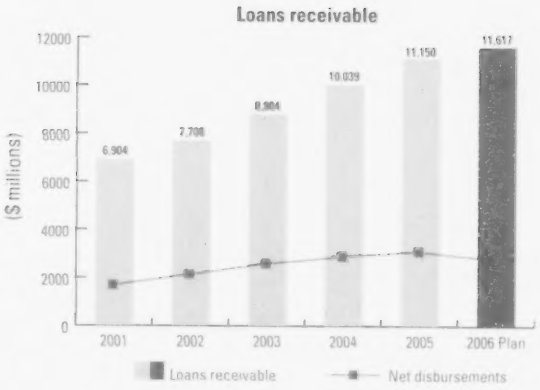
Efficiency and cost management: The net interest income remaining after deducting the provision for credit losses must cover administration expenses. We measure cost management performance using the efficiency ratio, which is the percentage of each dollar of net interest income required to cover administration expenses.

Financial results: Key measures used to assess our financial strength and success towards achieving our corporate vision include net interest income, net income, return on equity and debt-to-equity ratio.

Portfolio growth

Lending activity

FCC's portfolio experienced growth for the 12th consecutive year. The 2004-05 growth rate was 11.1 per cent. Loans receivable grew from $10,039 million in 2003-04 to $11,150 million in 2004-05 and generated $613 million in interest income. The largest contributing factor to the growth in loans receivable was net disbursements of $3,067 million, $205 million higher than the previous year. An additional factor in the growth was a renewal rate of 97.6 per cent, which was 1.1 per cent higher than 2003-04. The portfolio growth was offset somewhat by prepayments of 6.6 per cent of opening loans receivable, which was 0.1 per cent higher than last year.



Performance against 2004-05 plan and outlook for 2005-06

The plan for loans receivable in 2004-05 was $10,738 million. Actual results reached $11,150 million, an additional $412 million due to higher than planned net disbursements and renewal rate and lower prepayments. We expect loans receivable to grow by 4.2 per cent to $11,617 million in 2005-06. The slowdown in growth of the portfolio for 2005-06 is due to lower planned net disbursements, a slightly lower renewal rate and an increase in prepayments. A number of issues are negatively affecting the agriculture market and are expected to slow the demand for credit.

	2006 Plan	2005	2005 Plan	2004
Loans receivable ($ millions)	11,617	11,150	10,738	10,039
Net disbursements ($ millions)	2,745	3,067	2,724	2,862
Renewal rate (per cent)	96.0	97.6	95.0	96.5
Prepayment rate (per cent)	7.5	6.6	8.0	6.5

Lines of business

FCC lending activities are divided into three lines of business:

Farm Finance is defined as financing provided to farms that produce raw commodities, eg. crops, beef, hogs, poultry, sheep and dairy as well as fruits, vegetables and alternative livestock; it also includes value-added agriculture operations of less complexity and scope than those categorized as Agribusiness.

Agribusiness includes businesses on the output side of primary production that produce, transport, store, distribute, process or add value to agriculture commodities; businesses on the input side of primary production that supply materials or services to producers such as equipment dealers, cattle co-operatives and input suppliers; and value-added large, commercial farming operations.

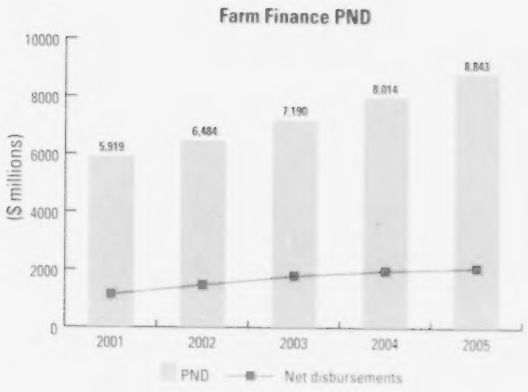
Alliances are relationships established by contract between FCC and other agriculture or financial organizations designed to pool talents and offer expanded service.

We lend to primary producers through all three business lines. In 2004-05, primary producers made up 91.2 per cent of total net disbursements, up from 90.4 per cent in 2003-04. Primary producers made up 98.1 per cent of Farm Finance net disbursements, 56.3 per cent of Agribusiness net disbursements and 99.6 per cent of Alliance net disbursements. Lending to primary producers continues to be our focus as we expand our product offerings to meet industry demands.

PND and net disbursements by line of business

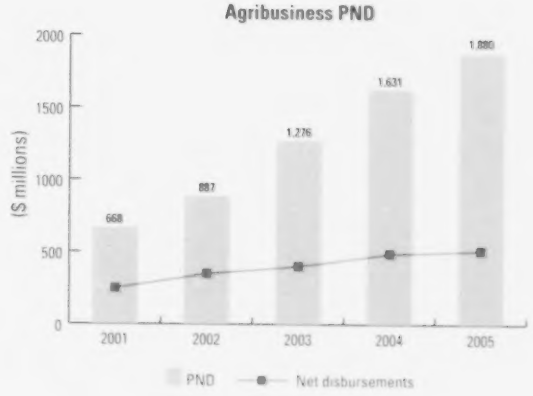
Farm Finance

Farm Finance PND grew by 10.3 per cent, from $8,014 million in 2003-04 to $8,843 million in 2004-05. Net disbursements increased slightly from $1,991 million to $2,098 million in 2004-05. Farm Finance net disbursements as a percentage of total net disbursements decreased from 69.6 per cent to 68.4 per cent due to the substantial growth in the Agribusiness and Alliance business lines. The Western, Prairie, Atlantic and Ontario areas saw increases in Farm Finance lending while the Quebec area experienced a decrease. The cash crops enterprise contributed the largest increase in net disbursements for the Farm Finance business line.



Agribusiness

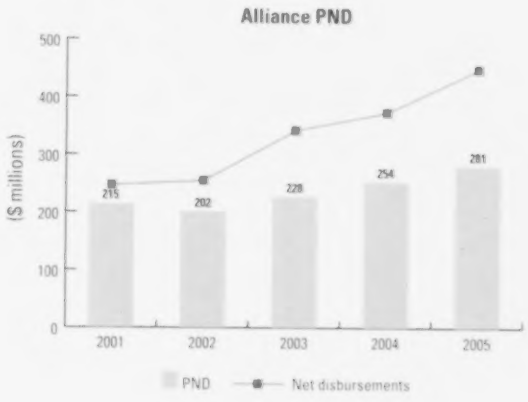
Agribusiness PND grew by 15.3 per cent, from $1,631 million in 2003-04 to $1,880 million in 2004-05. Net disbursements were up from $496 million in 2003-04 to $519 million in 2004-05. The largest increases in Agribusiness net disbursements were in the Atlantic, Quebec and Western areas and in the poultry and cash crop enterprises. The Prairie area had a decrease in disbursements, but maintained a similar portfolio level over the previous year.



Alliances

Alliance PND grew by 10.6 per cent, from $254 million to $281 million in 2004-05. Alliance net disbursements increased by 20.2 per cent from $375 million to $450 million. The cash crops enterprise provided the largest increase in Alliance lending.

Alliance lending largely supports input type loans that tend to be repaid in less than one year. This results in net disbursements exceeding the portfolio balance. We continue to expand our Alliance partnerships and product offerings to take advantage of the opportunities in the market.



PND and net disbursements by enterprise

FCC lends to all areas of agriculture across Canada and groups them into seven major enterprises – cash crops, dairy, beef, value-added, hogs, poultry and other. By diversifying our portfolio between these different enterprises, we minimize the impact of enterprise specific issues and risks.

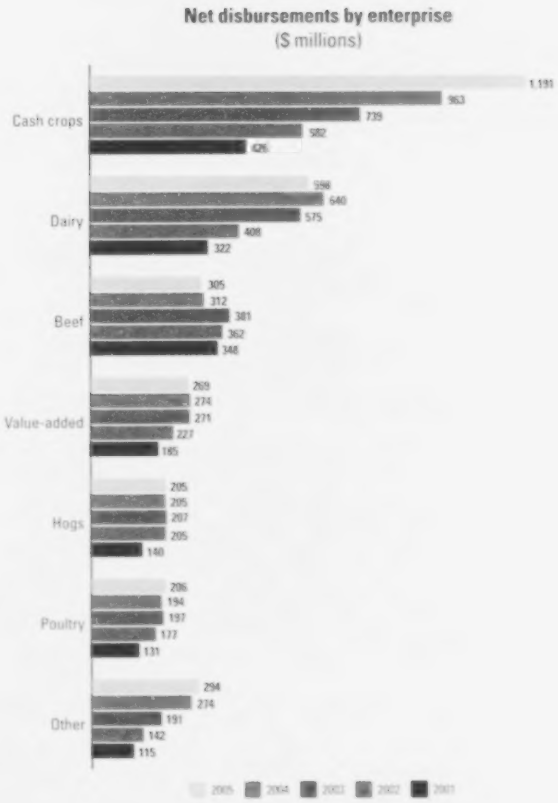
As a percentage of total net disbursements, there was an increase in the cash crops enterprise of 5.2 per cent, while there was a decrease in the dairy enterprise of 2.9 per cent. The decrease in lending to the dairy enterprise is due to the reduced demand for new loans in the sector and the impacts of a continued Canada/U.S. border closure. The total PND of the two major agriculture enterprises, cash crops and dairy, has increased slightly from 56.3 per cent to 56.8 per cent.

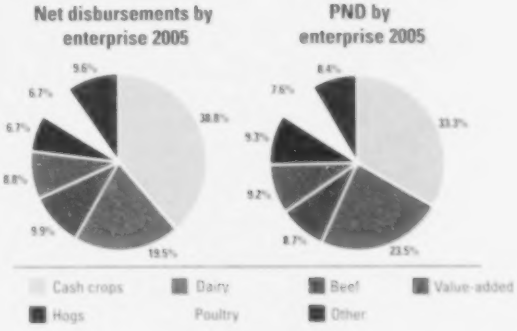
PND and net disbursements by geographic area

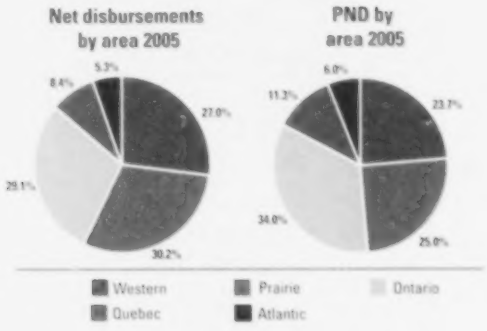
FCC promotes portfolio diversification by geographic area by maintaining a strong and consistent presence throughout rural Canada. We have offices in 100 rural communities from coast to coast.

All areas across Canada experienced PND growth in 2004-05. The largest PND growth was experienced in the Western and Ontario areas, with growth of 19.6 per cent and 11.3 per cent respectively. The Quebec sales area experienced the lowest growth at 2.1 per cent due to very low growth in agriculture debt within the province as well as competitive pressures.

As a proportion of total PND the Western area increased from 22.0 per cent in 2003-04 to 23.7 per cent in 2004-05. The Ontario and Atlantic areas remained at similar levels as the prior year, while the Prairie and Quebec sales areas decreased slightly from 25.6 per cent and 12.3 per cent to 25.0 per cent and 11.3 per cent respectively.





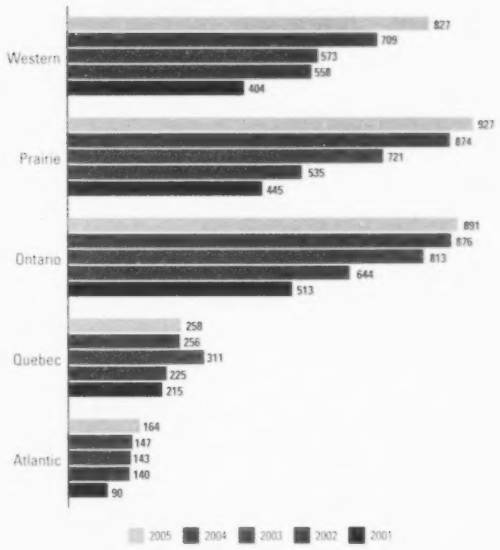


Net disbursements increased over the previous year in all areas across the country. The Western and Prairie areas experienced the largest increases, with $118 million and $53 million more net disbursements respectively. The largest increase in the Western and Prairie areas was in the cash crops enterprise.

The Western area net disbursements increased as a proportion of total net disbursements from 24.8 per cent in 2003-04 to 27.0 per cent in 2004-05. The Atlantic area experienced a slight increase, while the Prairie and Quebec areas experienced slight decreases. Ontario experienced the largest decrease in net disbursements as a proportion of total net disbursements from 30.6 per cent to 29.1 per cent.

Quebec experienced only a slight increase in net disbursements due to the issues previously mentioned. FCC is increasing marketing efforts within Quebec and has also added 10 new business development managers to assist in increasing lending volumes throughout Canada.

Net disbursements by area
($ millions)



Credit quality

The allowance for credit losses adjusts the value of loans receivable to reflect their estimated realizable value. In assessing their estimated realizable value, we must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. Changes in circumstances may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the allowance for credit losses. The allowance for credit losses is broken down into three components:

Specific – provides for probable losses on specific loans that have become impaired. Loans are classified as impaired when, based on management's judgment, there is no longer reasonable assurance of the timely collection of principal and interest.

General allocated – provides for management's best estimate of probable losses that exist in the portfolio and have not yet been specifically identified as impaired. The allocated amount considers the corporation's Risk Scoring and Pricing System (RSPS) to identify loans that have shown some deterioration in credit quality.

General unallocated – considers recent events and changes in economic conditions, as well as general economic trends, to allow for credit losses within the portfolio that have not yet manifested themselves as observable deterioration in specific loans. This allowance also covers model and estimation risks.

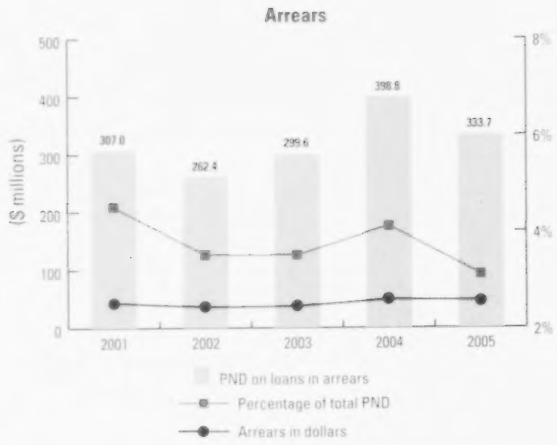
Management uses a number of indicators to assess the appropriate level of allowance for credit losses required, including loans in arrears and impaired loans. Impaired loans make up the largest portion of the specific allowance. Loans that have experienced arrears will typically have deterioration in credit quality and therefore manifest in the general allocated portion of the allowance for credit losses. Once the appropriate level of allowance is determined, the necessary amount of provision for credit loss is charged to the income statement to bring the allowance to the desired balance.

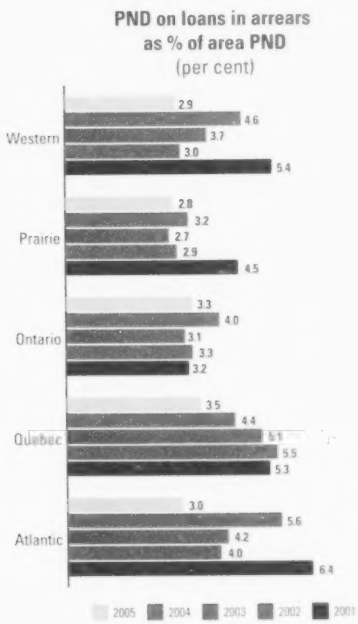
Loans in arrears

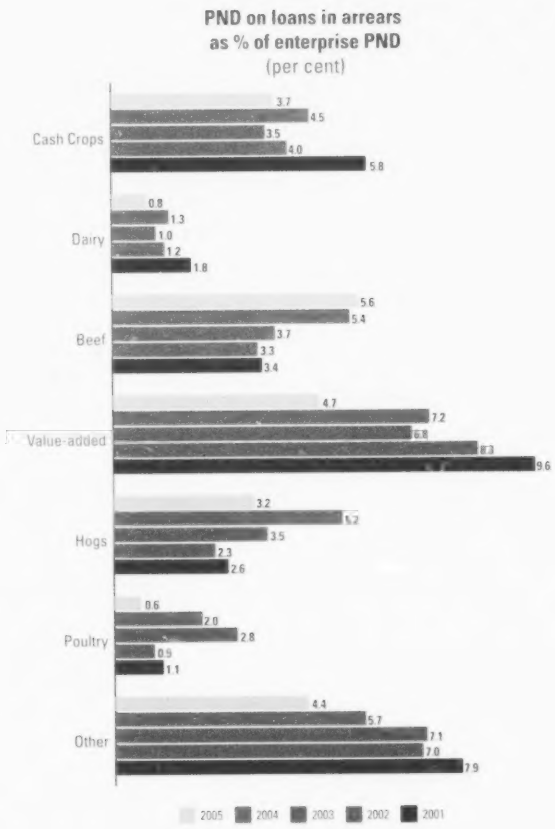
In 2004-05, arrears decreased to $39.2 million from $39.9 million in 2003-04, with PND on loans in arrears decreasing to $333.7 million from $398.8 million. PND on loans in arrears, as a percentage of total PND, decreased 1.0 per cent to 3.1 per cent.

Arrears levels across Canada have decreased in all enterprises except for a slight increase in beef. The decrease in arrears is reflective of improving conditions with respect to avian flu and hog prices, as well as the effect of customer support strategies that have been established in the past few years. The decrease in PND on loans in arrears is also due to the average principal size of loans in arrears being lower than the previous year and an increase in write-offs of loans in arrears over the previous year.

Although arrears and impaired loans levels have decreased from the previous year, there are a number of issues within the agriculture market that have yet to fully impact our portfolio. These include, but are not limited to, BSE and the continued border closure, depressed grain and oilseed prices, early fall frost and increases to energy-related input costs. We continue to monitor the portfolio and proactively assist our customers through difficult times.







Impaired loans

Impaired loan balances at the end of 2004-05 totalled $175.2 million, representing a decrease of $30.1 million from $205.3 million in the previous year. Impaired loans as a percentage of closing loans receivable decreased to 1.6 per cent from 2.0 per cent in 2003-04. FCC continually monitors its portfolio and the industry to identify potential for developing proactive solutions to help customers through difficult times.

Provision for credit losses

The provision for credit losses increased by $11.2 million, from $84.0 million in 2003-04 to $95.2 million due to the large portfolio growth, and increased risk.

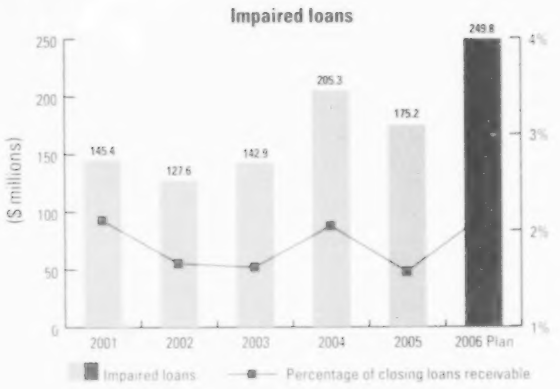
Allowance for credit losses

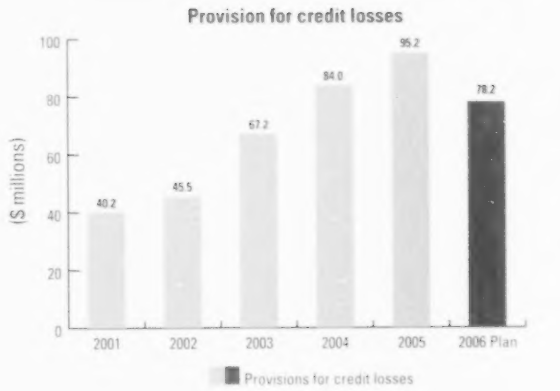
Due to growth in the portfolio, the allowance for credit losses increased by 14.1 per cent to $462.5 million, from $405.3 million in 2003-04. The allowance as a percentage of opening loans receivable remained constant with the previous year at 4.6 per cent in 2004-05.

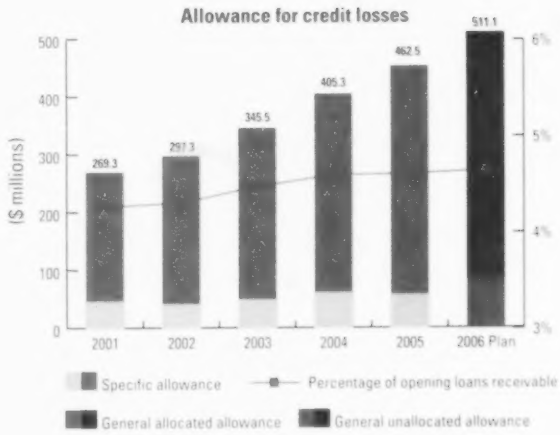
Performance against 2004-05 plan and outlook for 2005-06

The impaired loans balance in 2004-05 was below plan by $39.6 million and the arrears balance was $35.6 million below plan. The provision for credit losses was slightly above plan, reflecting the higher growth partially offset by the lower arrears and impaired loans balances. Although the provision for credit losses was $7.1 million above plan, the allowance for credit losses was only $3.1 million above plan due to higher than planned write-offs.

The outlook for 2005-06 is a similar level of allowance for credit losses in relation to the portfolio growth, with provision for credit losses expected to be lower than 2004-05 due to a reduced rate of portfolio growth. Most of the increase in the allowance for credit losses will be in the general allocated portion due to the increased level of arrears in the past several years.





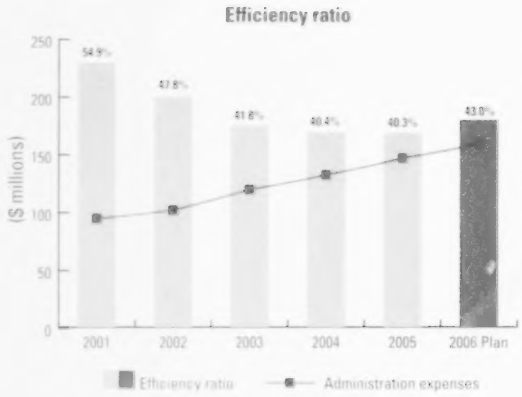


	2006 Plan	2005	2005 Plan	2004
Arrears ($ millions)	81.1	39.2	74.8	39.9
Impaired loans ($ millions)	249.8	175.2	214.8	205.3
Provision for credit losses ($ millions)	78.2	95.2	88.1	84.0
Allowance for credit losses ($ millions)	511.1	462.5	459.4	405.3

Efficiency and cost control

Efficiency ratio

The efficiency ratio measures the percentage of each dollar earned in net interest income that is spent in the operation of the business. A low efficiency ratio indicates an efficient use of resources. In 2004-05, our efficiency ratio decreased for the seventh consecutive year to 40.3 per cent. Net interest income grew by 11.9 per cent. However, administration expenses only grew by 11.5 per cent, resulting in a slight reduction in the efficiency ratio. Personnel expenses, specifically salaries, experienced the highest gain from 2003-04 to 2004-05 due to the addition of 50 full-time equivalent employees to support our continuing portfolio growth.



The continued improvement in the efficiency ratio reflects benefits derived from strategic initiatives implemented in 2004-05 and prior years. Efficiency gains provide capacity to support growth in lending, enhanced product support, market development and customer service.

Performance against 2004-05 plan and outlook for 2005-06

Administration expense were $2.1 million higher than plan. However, our efficiency ratio was 1.7 per cent below plan due to the substantial portfolio growth over the 2004-05 plan. We expect the efficiency ratio for 2005-06 to increase due to investments being made in strategic initiatives and infrastructure that will support FCC's continued growth and increased operational capacities.

	2006 Plan	2005	2005 Plan	2004
Administration expenses ($ millions)	159.0	143.7	141.6	128.9
Efficiency ratio (per cent)	43.0	40.3	42.0	40.4

Financial results

Net interest income

Net interest income is the difference between the interest earned on assets and interest expense on borrowings. In 2004-05, net interest income increased to $351.9 million, an 11.9 per cent increase over the previous year. The two major factors contributing to the increase are portfolio volume and net interest margin, which is net interest income expressed as a percentage of average assets. Portfolio growth of $1.1 billion or 11.1 per cent was experienced in 2004-05 over the previous year, which contributed $31.2 million more in net interest income. The net interest margin of 3.22 per cent is at a similar level in 2004-05 compared to 2003-04. The increase in margin due to increases in total capitalization contributed $6.3 million in additional net interest income over 2003-04.

Net interest margin 2005	Average daily balance ($ millions)	Rate (per cent)
Earning assets:		
Fixed loan principal balance	4,092.2	7.00
Variable principal balance	6,361.3	4.87
Investments	536.1	2.36
Venture capital investments	19.8	10.59
Total earning assets	11,009.4	5.55
Total interest-bearing liabilities	9,735.2	2.78
Total interest rate spread		2.77
Impact of total capitalization	1,274.2	0.45
Net interest margin		3.22

The net interest margin is intended to cover credit risks through the provision for credit losses and administration expenses, as well as yield a sufficient return to enable the corporation to reinvest in future growth and viability.

The following table outlines the historical year-over-year increases to net interest income and the amount of change that is due to changes in portfolio volume and changes in the net interest margin. We have refined our calculation of variances in 2004-05 and have recalculated prior year variances for comparison purposes. Variances in liability and equity volumes have been reclassified from portfolio volume to net interest margin.

Net interest income and margin ($ millions)	2006 Plan	2005	2004	2003	2002	2001
Interest income	732.9	627.8	622.1	562.0	548.6	549.5
Interest expense	372.1	275.9	307.7	288.8	343.7	384.0
Net interest income	360.8	351.9	314.4	273.2	204.9	165.5
Average total assets	11,597.5	10,940.8	9,739.1	8,563.3	7,562.8	6,813.6
Net interest margin (per cent)	3.11	3.22	3.23	3.19	2.71	2.43
Year-over-year change in net interest income due to:						
increase in portfolio volume	15.3	31.2	27.6	26.3	14.5	6.2
changes in net interest margin	(6.4)	6.3	13.6	42.0	24.9	4.9
Total change to net interest income	8.9	37.5	41.2	68.3	39.4	11.1

Net income

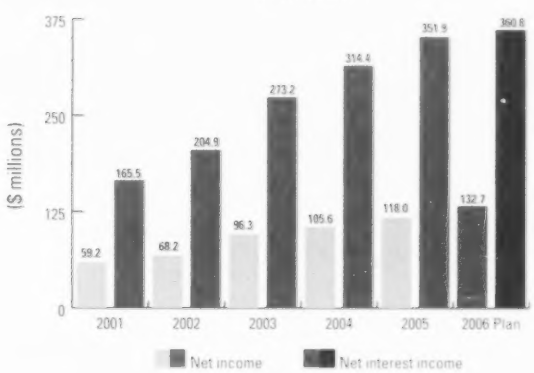
Net income is composed of net interest income plus fees and other income less the provision for credit losses and administration expenses.

Net income in 2004-05 increased to $118.0 million, an 11.7 per cent increase from the previous year. Portfolio growth, increased margin and a slight improvement in the efficiency ratio were somewhat offset by increased provision for credit losses attributed to growth in net income. FCC is a self-sustaining entity and therefore we reinvest our earnings back into agriculture through financing portfolio growth, new product development and business services that support the agriculture industry.

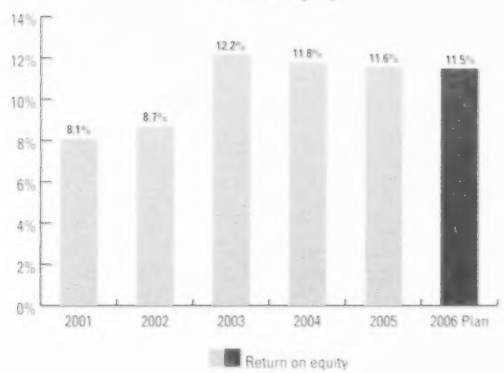
Return on equity

Return on equity is used to evaluate our performance, financial viability and our ability to fund future growth and strategic initiatives. Return on equity decreased slightly in 2004-05 to 11.6 per cent from 11.8 per cent in 2003-04. Increased provision for credit losses somewhat offset by strong portfolio growth and a slight improvement in the efficiency ratio contributed to the decrease in return on equity from the previous year.

Net income



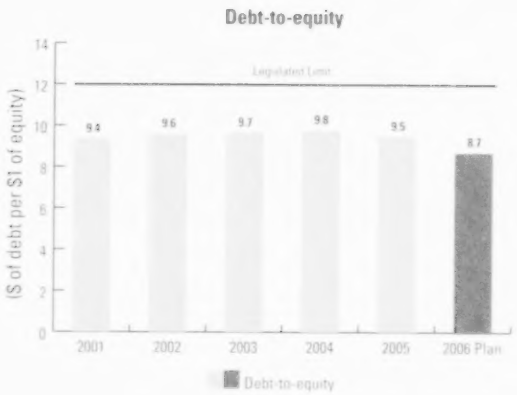
Return on equity



Debt-to-equity

Debt-to-equity is the amount of debt the corporation has outstanding in relation to each dollar of equity.

Debt-to-equity decreased from 9.8 in 2003-04 to 9.5 in 2004-05. The decrease is due to the growth in net income, retained earnings and a $25 million injection of equity from the Government of Canada, which is being used to expand FCC Ventures. When the growth in equity exceeds the portfolio growth, the debt to equity ratio is reduced due to the reduced requirement for borrowing funds. Debt-to-equity is also a measure of risk as the more one borrows against a single dollar of equity, the greater the risk. The FCC legislated debt-to-equity limit is 12.0.



Performance against 2004-05 plan and outlook for 2005-06

In 2004-05, net interest income was $24.6 million above plan due to portfolio growth exceeding plan and higher than planned margin levels. Net income exceeded plan by $10.2 million due to the increase in net interest income and a lower than planned efficiency ratio. The resulting return on equity ratio was 0.9 per cent above plan. Debt-to-equity was 0.3 higher than plan due to the unexpected portfolio growth levels.

Net interest income is planned to increase to $360.8 million in 2005-06 due to portfolio growth attributing an additional $15.3 million, offset by slightly lower margins attributing a $6.4 million decrease compared to 2004-05. Net income is expected to increase to $132.7 million in 2005-06 due to portfolio growth and a reduced level of provision for credit losses, offset by increases in administration expenses. Return on equity is expected to decrease due to a planned increase in administration expenses leading to an increase in our efficiency ratio. This is due to investment in the strategic initiatives and infrastructure necessary to support our continued growth and success. As we are expecting a slowdown in growth for 2005-06, the debt-to-equity ratio is expected to drop as our equity will grow at a higher rate than the portfolio, reducing the borrowing requirements per dollar of equity.

	2006 Plan	2005	2005 Plan	2004
Net interest margin (per cent)	3.11	3.22	3.06	3.23
New lending margin (per cent)	2.53	2.63	2.58	2.59
Net interest income ($ millions)	360.8	351.9	327.3	314.4
Net income ($ millions)	132.7	118.0	107.8	105.6
Return on equity (per cent)	11.5	11.6	10.7	11.8
Debt-to-equity ($ of debt per $1 of equity)	8.7	9.5	9.2	9.8

Funding activities

FCC raises funds through multiple domestic and international capital market borrowing programs. Short, medium and long-term sources of funds include:

- Domestic Commercial Paper Program;
- Domestic Medium and Long-Term Note (MTN) Program;
- Euro Commercial Paper Program; and
- Euro Medium-Term Note (EMTN) Program.

Short-term funding

Short-term funding consists of borrowings with a term to maturity of less than one year. This includes the Domestic and Euro Commercial Paper programs as well as MTN and EMTN debt with less than one year to maturity. The outstanding short-term borrowings at March 31, 2005 were $2.7 billion, compared to $2.1 billion as at March 31, 2004. We increased our short-term borrowings to more closely reflect the growth seen in variable-rate mortgages in our portfolio.

Medium and long-term funding

Medium to long-term funding consists of all borrowings with a term to maturity of more than one year. This includes all MTN and EMTN debt with more than one year to maturity. During 2004-05, FCC borrowed a total of $2.8 billion in medium and long-term funds, down from $3.2 billion in 2003-04. The decrease is due to diminished structured note issuance this year. In 2004-05, $2.5 billion of MTNs were issued in the domestic bond market through a combination of retail, institutional and structured notes. FCC also issued $257.1 million in the EMTN market, down from $373.9 million in 2003-04.

Debt issued by FCC constitutes a direct, unconditional obligation of the Government of Canada. During 2004-05, the corporation's debt ratings were unchanged by Moody's Investors Service and Standard & Poor's. FCC foreign and domestic debt ratings are detailed below as of March 31, 2005.

	Domestic debt		Foreign debt	
	Long-term	Short-term	Long-term	Short-term
Moody's	Aaa	P1	Aaa	P-1
Standard & Poor's	AAA	A-1+	AAA	A-1+

FCC continuously pursues opportunities to diversify funding sources and access cost-effective funds from the capital market. Such initiatives are established pursuant to and in accordance with the Minister of Finance's Guidelines for Market Borrowings by Crown Corporations.

Capitalization

Capitalization ($ millions)	2006 Plan	2005	2004	2003	2002	2001
Equity:						
Capital	547.7	532.7	507.7	507.7	507.7	507.7
Retained earnings	675.8	551.8	437.5	331.9	235.6	322.8
Subtotal	1,223.5	1,084.5	945.2	839.6	743.3	830.5
Allowances	511.1	462.5	405.3	345.5	297.3	269.3
Total capitalization	1,734.6	1,547.0	1,350.5	1,185.1	1,040.6	1,099.8
Gross assets not requiring debt financing (per cent)	14.07	13.04	12.73	12.71	12.73	14.77

FCC's gross assets are $11,867.5 million, which are supported by equity and allowances of $1,547.0 million. At this level of capitalization, 13.04 per cent (2003-04 –12.73 per cent) of assets do not require external debt financing.

Business services

FCC Ventures

FCC Ventures, Farm Credit Canada's venture capital division, was formed in 2002-03 to address the critical need for more venture capital in agriculture to help fund the growth of the industry.

The FCC Ventures portfolio grew by 127.0 per cent in 2004-05 to $31.1 million. FCC Ventures direct capital investments and funds co-invested by various private equity funds increased in 2004-05 by 151.2 per cent over 2003-04. Since inception, FCC Ventures has attracted $65.9 million in co-investments and has reviewed more than 500 business plans from across the country and in various enterprises. FCC Ventures is expanding across the country to be closer to its key markets and customers.

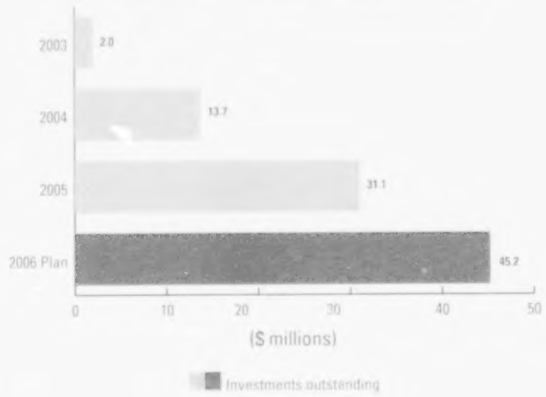
FCC Ventures continues to support growth in the agriculture market through its investments and by raising awareness of potential investment opportunities within the venture capital and financial markets.

Performance against 2004-05 plan and outlook for 2005-06

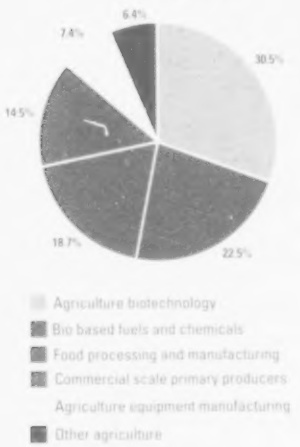
The 2004-05 plan for venture capital investments was $34.5 million. Actual investments were $3.4 million below plan. However, a number of investments were in the final stages of review as at our year-end. Even though investments were below plan for 2004-05, the ratio of dollars co-invested per FCC Ventures invested dollar exceeded plan.

The outlook for 2005-06 is direct investments outstanding of $45.2 million, a 45.3 per cent increase over 2004-05. The increase reflects investments carrying forward from the approval process as at year-end and reflects increased investments due to the expansion efforts planned for 2005-06.

Venture capital investments outstanding



Investments by sector



	2006 Plan	2005	2005 Plan	2004
Direct capital invested ($ millions)	45.2	31.1	34.5	13.7
Co-investment ratio ($ co-invested per FCC dollar)	1.3	2.4	1.3	1.8

AgExpert

Purchased in 2002-03, AgExpert is Canada's leading publisher of farm management software, offering the AgExpert Analyst accounting software, and AgExpert Field Manager programs and related support to primary producers. In the past year, FCC continued to enhance AgExpert management software for application across Canadian agriculture and strengthen the connection to the FCC brand. New versions of the accounting software (AgExpert Analyst 2005) and field management software (AgExpert Field Manager Version 5.0) and related support generated $1.7 million in gross revenues in 2004-05. This is 41.7 per cent higher than 2003-04 revenues.

Key performance drivers of AgExpert include the product's ongoing relevance to agriculture-specific market requirements, including compliance programs such as the Canadian Agriculture Income Stabilization (CAIS) program and emerging food safety production initiatives. Expanded product use by key industry influencers and stakeholders will enable market share growth and revenue increases.

Performance against 2004-05 plan and outlook for 2005-06

In spite of the revenue gains achieved, sales were $0.7 million below plan for the past year. We forecast software and related support sales to increase to $2.8 million in 2005-06. These increases are expected to occur as AgExpert products continue to gain recognition in the marketplace and build on the strength of the FCC brand and distribution network.

	2006 Plan	2005	2005 Plan	2004
Sales revenue ($ millions)	2.8	1.7	2.4	1.2

AgriSuccess

FCC's AgriSuccess division delivers programs such as educational workshops and seminars designed to meet the needs of today's sophisticated farmers and agribusiness operators. The impact of AgriSuccess programs expanded in 2004-05, with the continued focus on management training and information. Research completed previously indicated the need for additional management training opportunities. To fulfil that need, four new AgriSuccess workshops were developed and delivered in the areas of financial management (ratio analysis and management accounting systems) and human resource management (acquisition and retention of employees). At the end of 2004-05, four additional modules are in the final stages of development and will be delivered next fiscal year (succession planning, vision/goal setting, estate planning and price risk management).

The AgriSuccess division offers the AgriSuccess Business Planning Award, which is presented to students attending agriculture diploma and degree programs across Canada. These awards encourage young people starting a career in agriculture to develop effective business plans while they have access to help from professional educators.

Advanced Farm Manager is an intensive training experience that focuses on all aspects of strategic business planning. This course was held in four locations this fiscal year. All AgriSuccess training and information programs are offered for the purpose of advancing management practices in Canadian agriculture.

Performance against 2004-05 plan and outlook for 2005-06

Thirty-nine training workshops were delivered across Canada. Eleven supplementary seminars were held, with expert presenters on a variety of management issues. In total, 1,626 people attended an AgriSuccess event this past year, 126 participants above plan. We expect the number of participants to increase to 2,000 in 2005-06.

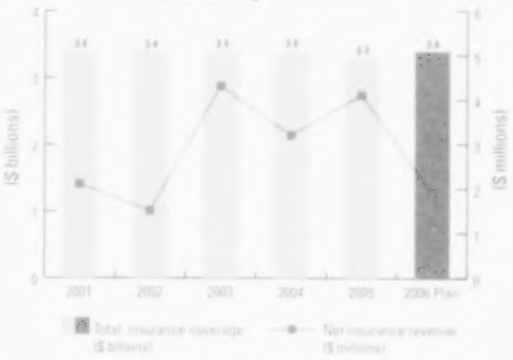
AgriSuccess Journal is published semi-monthly with over 13,000 subscribers, 1,000 subscribers above plan. AgriSuccess Express reaches 13,500 e-mail inboxes each week. Circulation continues to grow and we expect to reach 14,500 in 2005-06.

	2006 Plan	2005	2005 Plan	2004
AgriSuccess participants	2,000	1,626	1,500	1,031
AgriSuccess journal distribution	14,500	13,087	12,000	4,500

AgriAssurances

FCC has been offering group creditor life insurance since 1960, providing protection for our customers, their families and their businesses. In recent years, FCC life insurance plans have been enhanced to cover accidental dismemberment, paralysis and blindness, as well as an early payout benefit in the case of a terminal illness. New insurance plans have also been introduced for specific customer needs and loan products. FCC group creditor insurance plans are underwritten by Sun Life Assurance Company of Canada.

Insurance coverage and net revenue



At the end of 2004-05, the program had $3.3 billion outstanding in total loan insurance coverage, which is a slight decrease from $3.4 billion at the end of 2003-04. New insurance coverage sold in 2004-05 was $442 million, compared to new insurance sales of $464 million in 2003-04. New insurance sales are expected to increase in 2005-06 primarily due to the launch of a revolving credit insurance product. Insurance was not previously available on revolving credit loans, which are comprising a higher proportion of lending since introduction in fiscal 2003-04. Net insurance revenues were $4.1 million in 2004-05, an increase from $3.2 million in 2003-04 primarily due to a decrease in claims.

Performance against 2004-05 plan and outlook for 2005-06

Net revenues from AgriAssurances are quite volatile from year to year, depending on claims. Net revenues were $4.1 million in 2004-05 or $2.2 million higher than plan. Over the last three years, we have been experiencing below average claim levels. With claims projected at an average historic level, the net insurance revenue for 2005-06 is projected at $1.9 million.

	2006 Plan	2005	2005 Plan	2004
Net insurance revenue ($ millions)	1.9	4.1	1.9	3.2

Enterprise risk management

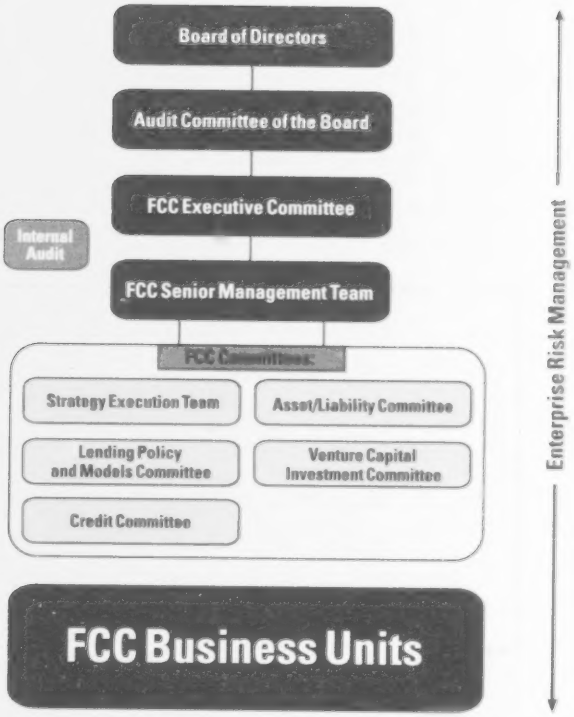
All FCC business activities involve risk. Sound Enterprise Risk Management (ERM) practices help us balance our risk-taking activities and risk management practices within the context of executing corporate strategy and achieving our business goals and objectives. Our risk governance framework enables us to manage our four main categories of risk : credit risk, market risk, liquidity risk and operational risk.

Risk governance

The **Board of Directors** is responsible to review management's enterprise risk management policies, control systems and practices that have been put in place to manage key risks identified by management.

The **Audit Committee** of the FCC Board of Directors is responsible for ensuring that management has identified key risks and has put in place reasonable policies, control systems and practices to manage these risks. The Audit Committee receives semi-annual reports from management outlining the levels and trends in major risk areas and corresponding risk management measures implemented, to provide assurance that FCC is effectively managing risk.

FCC's **Executive Committee** (EC) sets the tone for ERM at FCC and is accountable for championing a culture that supports effective risk management, strategic decision-making, including risk/reward decisions, compensation alignment and prioritization. Additionally, EC reports to the Board on major risks with potentially high impact to the corporation as they arise.



The **Senior Management Team** (SMT) participates in enterprise-wide discussion of risks and ranks them according to the extent of their impact and likelihood. SMT is accountable to develop risk management action plans and to report against these risks.

Strategy Execution Team (SET) is responsible for the ongoing monitoring and execution of the corporate workplan, to enable the achievement of FCC strategic objectives. SET prioritizes and sequences corporate projects to ensure alignment with the FCC strategy and optimum use of our financial and human resources.

The **Asset/Liability Committee** is responsible for the establishment and maintenance of market risk policies and procedures, and ensuring sufficient integration with corporate strategic and financial planning.

The **Lending Policy and Models Committee** oversees the development of lending policies and the enhancement of credit risk models and scorecards to support and maintain FCC's desired credit culture. The committee works to ensure that these portfolio risk tools reflect FCC credit risk tolerance, industry best practices and compliance with federal, provincial and regional laws and regulations.

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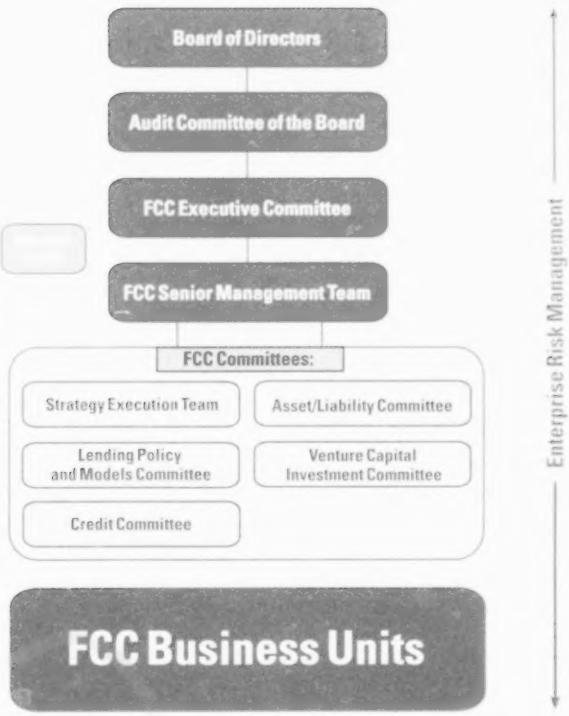

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The **Credit Committee** reviews and makes lending decisions on loan applications from customers with total exposure in excess of $10 million for established operations and in excess of $5 million for start-up operations.

The **Venture Capital Investment Committee** adjudicates all venture capital investment recommendations and reviews the performance of the existing investment portfolio.

Internal Audit provides independent assurance to FCC management and the Audit Committee on the effectiveness of FCC risk management, internal control and governance processes.

The **Enterprise Risk Management** department offers a comprehensive view of risk across the organization and works with the Strategy and Corporate Project Management Office to ensure that ERM is incorporated in the strategic planning process. The ERM function facilitates the assessment and ranking of significant risks identified by FCC management and supports business units in developing actions to address ongoing business risks, while enhancing FCC's ability to capitalize on developing opportunities. ERM reports semi-annually to the Audit Committee with respect to the highest-ranked risks.

Credit risk management

Credit risk is the potential for financial loss due to the failure of a borrower or other counterparty to repay a loan or meet its financial obligations to FCC. Credit risk is the most significant area of risk for FCC.

In order to fulfil our mission and to meet our governing objective of remaining financially self-sustaining, a balance must be maintained between net income (profitability) and risk (volatility of net income).

This relationship is explained in our portfolio vision statement: "FCC's vision for the loan portfolio is having it perform at a level sufficient to create the desired level of net income within an acceptable range of volatility. The desired net income will support growth of the portfolio to thereby achieve FCC's mission in a growing agricultural economy."

The Portfolio Management division assesses credit risk at the aggregate level, providing risk assessment tools and models to quantify credit risk and default loss allowances. They also monitor the agriculture and agri-food operating environments to ensure FCC lending policies, activities and prices are appropriate and relevant.

The following tools or systems are used to manage credit risk of the portfolio. Annually, numeric targets associated with many of these tools are set to assist in achieving the portfolio vision statement. Significant research, modelling, validation and interpretation support the targets for each tool:

Strategic Credit Risk Model (SCRM) measures the risk in the portfolio, first by totalling individual loans or transaction risk, then overlaying risks for groups (concentrations) of loans by lines of business, enterprises, geographic areas and customer exposure. There are three possible score ranges, each corresponding to a credit risk strategy:

- Conservative (maximizes portfolio quality)
- Managed (balances portfolio quality and growth)
- Aggressive (maximizes growth)

FCC targets the managed range, and in 2004-05, the SCRM indicated a managed level of overall strategic credit risk.

These results show consistent credit risk exposure over the past five years, indicating that credit risk has been managed successfully.

Portfolio Diversification Plan is a process that determines the five-year optimal portfolio composition through a balance of profitability and risk. It considers projected growth in Canadian agriculture debt, risk-adjusted and cost-adjusted returns by sector, FCC growth trends and market share. The Portfolio Diversification Plan identifies target ranges and adjustment options for each of the following:

- diversification across enterprises, geographic areas and business lines;
- market share by enterprise and geographic area;
- large customer exposure limits and approval authorities for large exposure customers; and,
- maximum target market share for minor, niche market sectors.

FCC is currently within the target ranges, and is planning for growth in each sector.

Risk Scoring and Pricing System (RSPS) is a behavioural scorecard used as FCC's risk rating system. It is used to suggest interest rates for individual loans and ensures the cost of funds, risk, operating cost and planned profit are recovered.

The **Market Development Plan** operationalizes the Portfolio Diversification Plan, presenting the rationale, objective and strategy for each of FCC's business lines. The strategy component presents the relative priority of market development efforts in retention, expansion or acquisition for each business line in the upcoming year.

Loan Loss Allowance models the losses due to credit risk within the loan portfolio. The Specific Loan Loss model identifies non-performing loans. The General Allocated Loan Loss model identifies loans that are still performing, but have characteristics that indicate deterioration in credit-worthiness. For both of these groups of loans, the models consider security position to estimate the appropriate amount of loss allowance. The General Unallocated Loan Loss Allowance is a third component of loan loss that considers recent events and changes in economic conditions that may have created deterioration in credit quality for many loans, but where the loans have not yet exhibited deterioration in credit quality. Quantifying and recording such losses protects FCC's equity and reduces the stated loans receivable on FCC's balance sheet.

The Credit Policy department is responsible for the management of FCC lending policies, and makes recommendations to the Lending Policy and Models Committee to ensure an appropriate balance between risk mitigation and effective procedures. Credit Policy reviews, enhances and clarifies lending policies, communicates policy changes to staff, provides policy training and ongoing interpretation of policy in relation to general and specific lending situations.

Operations staff are responsible for managing credit risk on the loans in their portfolio. Lending authority is granted on the basis of credit training and demonstrated competence, and credit decisions are made at an authority level appropriate to the size and risk of each loan. Operations monitors customer and loan performance throughout the life of the loan through ongoing account management as well as the account review process.

The Credit Risk division manages credit risk for larger loans as well as loans with a higher risk rating. Credit Risk staff are responsible for delegation of authorities, credit training and coaching, and credit authorization, including Credit Committee recommendations. Valuations staff research land sales, maintain benchmark data on land values, and appraise the value of FCC security with particular emphasis on specialized enterprises and agribusinesses. Special Credit staff manage and resolve higher-risk accounts experiencing challenges.

Market risk management

Market risk is the potential for loss to FCC as a result of adverse changes in underlying market factors, including interest rate variability.

FCC has market risk policies and limits to ensure exposures to interest rate and foreign exchange risk are measured, managed and reported on a timely basis. Market risk policies are regularly reviewed by FCC's Asset/Liability Committee (ALCO) and are approved by FCC's Board of Directors. The market risk policy limits were developed in consultation with the federal Department of Finance. The Treasury division is responsible for implementing market risk management directives and reports regularly to ALCO and quarterly to the Board of Directors on its activities and asset/liability positions.

The Treasury division is responsible for managing funding operations, as well as mitigating associated risks such as liquidity risk, interest rate risk, foreign exchange risk, basis risk, prepayment risk, commitment risk and credit risk related to derivative instruments. In managing its operations, the Treasury division uses sound policies, processes and core systems consistent with industry best practices and Department of Finance guidelines. Through effective and prudent treasury management, the division mitigates market risk by managing interest rate risk. FCC's policy is to hedge foreign exchange rate risk. All foreign currency borrowings are fully hedged at the time of issuance, unless the foreign currency is used specifically to finance a like currency asset.

Interest rate risk

Interest rate risk is the potential impact of changes in interest rates on FCC's earnings and economic value. FCC is exposed to interest rate risk primarily from interest rate mismatches and embedded options. Interest rate mismatches between assets, liabilities and off-balance sheet instruments occur because of different maturity, renewal and/or re-pricing dates. Embedded options existing on loans that have prepayment features and interest rate guarantees on mortgage commitments. Exposure to interest rate risk is monitored using an asset/liability model. Various scenarios are produced on a monthly basis to analyse material adverse factors. The asset/liability model is back-tested to ensure that the assumptions used in the model are comparable to actual results.

Asset/liability management

FCC measures interest rate risk exposures with an asset/liability model. The model simulates changes in net interest income and market value portfolio equity for parallel and non-parallel changes in the yield curve. Given FCC's financial position at March 31, 2005, an immediate two per cent increase (decrease) in interest rates across all maturities would affect net interest income and market value portfolio equity as follows:

	2% increase	2% decrease
	$ millions	
Net interest income variability	+1	-2
Market value portfolio equity variability	-72	+67

Throughout 2005, FCC was within Board-approved risk management guidelines and policies with respect to exposures to interest rates and foreign exchange risks.

Derivatives

FCC uses derivatives for risk management. No derivatives are entered into for speculative purposes. Derivative instruments may be used to hedge exposures to foreign exchange risk, basis risk, the options embedded in FCC loan products, and the mismatches in the maturities and interest rate characteristics of FCC assets and liabilities. In addition, in the normal course of financing the operations of FCC, derivative instruments may be used in combination with a debt instrument to synthetically create floating or fixed rate debt. Such transactions alter the cash flows and risk profile of the assets and liabilities to ensure interest rate risk and foreign exchange risk are managed within Board-approved limits and Department of Finance borrowing limits. We comply with the guidance for hedging relationships as outlined by the CICA.

Derivative instruments are subject to credit risk arising from the potential for a counterparty to default on its contractual obligation. FCC is not exposed to credit risk for the full notional amount (face value) of the derivative contracts, but only to the potential replacement cost if the counterparty defaults. To mitigate this risk, FCC transacts derivatives only with counterparties of acceptable credit quality, as determined by the published ratings of external credit rating agencies. Standard credit mitigation, via netting arrangements provided in the master ISDA (International Swap and Derivatives Association) documentation, provide for the simultaneous close-out and netting of positions with a counterparty in the event of a default. Credit Support Annex documentation is also in place with several FCC counterparties. These agreements are addendums to existing ISDA documentation and provide for the provision of collateral to FCC in the event that the counterparty credit exposure exceeds an agreed threshold.

Liquidity risk management

Liquidity risk is the potential for financial loss if FCC cannot meet a demand for cash or fund our obligations at a reasonable price as they come due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price.

FCC measures, forecasts and manages cash flow as an integral part of liquidity management. The corporation's objective is to maintain sufficient funds to meet customer and business operational requirements.

FCC maintains liquidity through:

- a liquid investment portfolio – cash and marketable securities equal to $586.8 million were on hand at March 31, 2005 (March 31, 2004 – $478 million). ALCO and the Board of Directors have established an investment policy that sets minimum credit ratings for short and long-term marketable securities and limits the size and composition of the total investment portfolio;
- access to commercial paper markets – FCC's domestic and Euro commercial paper programs provide the corporation with sufficient liquidity to meet daily cash requirements; and,
- access to a $10-million bank operating line of credit and a $50-million revolving credit facility.

Operational risk management

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems, or from external events that are not related to credit, market or liquidity risks.

Managers are responsible for daily management of operational risk, while Executive Committee and the Senior Management Team are responsible for managing enterprise-wide operational risk. All FCC staff are responsible to comply with corporate policies and procedures.

The Strategy Execution Team (SET) monitors the execution of the corporate workplan and prioritizes and sequences corporate projects to ensure alignment with the FCC strategy and optimum use of FCC financial and human resources.

The FCC General Counsel and Chief Privacy Officer is responsible for managing risks associated with changes in legislation, litigation involving FCC, and privacy of customer and employee information.

Administration Services is responsible for managing risks associated with physical facilities, employee safety and security, insurance policies, emergency preparedness and many aspects of business continuity planning.

Information Technology is responsible for managing risks related to computer systems, data integrity, disaster recovery and data services.

Enterprise Risk Management assists functional and senior managers in identifying operational risks, facilitates an annual evaluation of the likelihood and potential impact of these risks, co-ordinates the business continuity plan and prepares semi-annual progress reports for FCC senior management and the Audit Committee.

Farm Credit Canada
Agriculture. It's all we do.

Management's Responsibility for Financial Statements

The accompanying financial statements of Farm Credit Canada and all information in this annual report are the responsibility of the corporation's management and have been reviewed and approved by the Board of Directors. The financial statements include some amounts, such as the allowance for credit losses, the provision for employee future benefits, and the fair value for financial instruments, that are necessarily based on management's best estimates and judgement.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are properly authorized and recorded, assets are safeguarded, liabilities are recognized, proper records are maintained, and the corporation complies with applicable laws and conflict of interest rules. The system of internal control is augmented by internal audit, which conducts periodic reviews of different aspects of the corporation's operations.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board of Directors exercises this responsibility through the Audit Committee, which is composed of Directors who are not employees of the corporation. The Audit Committee meets with management, the internal auditors and the external auditors on a regular basis. Internal and external auditors have full and free access to the Audit Committee.

The corporation's independent external auditor, the Auditor General of Canada, is responsible for auditing the transactions and financial statements of the corporation and for issuing her report thereon.

John J. Ryan
President and Chief Executive Officer

Moyez Somani
Executive Vice-President and Chief Financial Officer

Regina, Canada
May 13, 2005

Auditor General of Canada
Vérificatrice générale du Canada

Auditor's Report

To the Minister of Agriculture and Agri-Food

I have audited the balance sheet of Farm Credit Canada as at March 31, 2005 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the corporation as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied, after giving retroactive effect to the change in the method of accounting for loan fees as explained in Note 2 to the financial statements, on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Farm Credit Canada Act* and the bylaws of the corporation.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
May 13, 2005

Balance Sheet

As at March 31 (thousands of dollars)

		2005		2004 (Restated – Note 2)
Assets				
Cash and cash equivalents	$	318,062	$	149,409
Temporary investments (Note 3)		268,743		328,823
Accounts receivable		67,097		37,924
		653,902		516,156
Loans receivable – net (Notes 4 and 5)		10,687,450		9,633,697
Venture capital investments (Note 6)		31,128		13,700
		10,718,578		9,647,397
Real estate acquired in settlement of loans		521		3,711
Equipment and leasehold improvements (Note 7)		28,343		29,883
Other assets		3,649		6,737
		32,513		40,331
Total Assets	$	11,404,993	$	10,203,884
Liabilities				
Accounts payable and accrued liabilities	$	36,097	$	31,467
Accrued interest on borrowings		77,167		69,097
		113,264		100,564
Borrowings (Note 8)				
Short-term debt		2,729,907		2,075,593
Long-term debt		7,373,823		7,064,458
		10,103,730		9,140,051
Other liabilities (Note 9)		103,450		18,045
		10,320,444		9,258,660
Shareholder's Equity				
Capital (Note 1)		532,725		507,725
Retained earnings		551,824		437,499
		1,084,549		945,224
Total Liabilities and Shareholder's Equity	$	11,404,993	$	10,203,884

Guarantees, commitments and contingent liabilities (Note 14).
The accompanying notes are an integral part of the financial statements.

Approved:

Rosemary Davis
Chair, Board of Directors

Marie-Andrée Mallette
Chair, Audit Committee

Statement of Operations and Retained Earnings

For the year ended March 31 (thousands of dollars)

		2005		2004 (Restated – Note 2)
Interest Income				
Loans receivable	$	613,131	$	608,425
Investments		14,713		13,731
		627,844		622,156
Interest expense				
Short-term debt		54,131		48,952
Long-term debt		221,816		258,744
Total interest expense		275,947		307,696
Net Interest Income		351,897		314,460
Provision for credit losses (Note 5)		95,150		84,031
Net Interest Income after provision for credit losses		256,747		230,429
Other income		4,962		4,153
Income before administration expenses		261,709		234,582
Administration expenses (Note 10)		143,705		128,942
Net Income		118,004		105,640
Retained earnings, beginning of year		437,499		331,859
Dividend paid (Note 1)		(3,679)		–
Retained Earnings, end of year	$	551,824	$	437,499

The accompanying notes are an integral part of the financial statements.

Statement of Cash Flows

For the year ended March 31 (thousands of dollars)

	2005	2004 (Restated – Note 2)
Operating Activities		
Net income	$ 118,004	$ 105,640
Items not involving cash and cash equivalents:		
Provision for credit losses (Note 5)	95,150	84,031
Amortization of bond premiums/discounts	18,933	29,195
Change in accrued interest receivable	(6,405)	(2,075)
Change in accrued interest payable	7,166	(5,179)
Other	14,591	47,156
Cash provided by operating activities	247,439	258,768
Investing Activities		
Loans receivable disbursed	(3,508,900)	(3,188,100)
Loans receivable repaid	2,361,752	1,932,536
Change in temporary investments	60,080	(72,041)
Venture capital investments disbursed	(17,300)	(11,700)
Change in real estate held	3,190	239
Other	(1,150)	(2,227)
Cash used in investing activities	(1,102,328)	(1,341,293)
Financing Activities		
Long-term debt from capital markets	2,765,523	3,202,869
Long-term debt repaid to capital markets	(2,392,616)	(2,681,048)
Dividend paid	(3,679)	–
Change in short-term debt	654,314	563,430
Cash provided by financing activities	1,023,542	1,085,251
Change in cash and cash equivalents	168,653	2,726
Cash and cash equivalents, beginning of year	149,409	146,683
Cash and cash equivalents, end of year	$ 318,062	$ 149,409
Supplemental Information		
Cash interest paid during the year	$ 267,876	$ 313,775

The accompanying notes are an integral part of the financial statements.

Notes to Financial Statements

1. The corporation

Authority and objectives

Farm Credit Canada (the corporation) was established in 1959 by the *Farm Credit Act* as the successor to the Canadian Farm Loan Board and is an agent Crown corporation named in Part I of Schedule III to the *Financial Administration Act*. The corporation is wholly owned by the Government of Canada and is not subject to the requirements of the *Income Tax Act*.

On April 2, 1993, the *Farm Credit Corporation Act* was proclaimed into law and replaced the *Farm Credit Act* and the *Farm Syndicates Credit Act*, both of which were repealed. The Act continues the corporation with its corporate office in Regina, Saskatchewan, under an expanded mandate that includes broader lending and administrative powers.

On June 14, 2001, the *Farm Credit Canada Act* received Royal Assent, which updated the *Farm Credit Corporation Act*. This new act continues the corporation as Farm Credit Canada and allows the corporation to offer producers and agribusiness operators a broader range of services.

The corporation's role is to enhance rural Canada by providing business and financial solutions for farm families and agribusiness. Additionally, the corporation may deliver specific programs for the Government of Canada on a cost-recovery basis.

Capital

Capital of the corporation consists of capital contributions made by the Government of Canada net of the March 31, 1998 reallocation of $660.6 million to eliminate the corporation's accumulated deficit.

As of March 31, 2005, capital payments received or receivable from the Government of Canada amounted to $1,193.3 million (2004 – $1,168.3 million). The statutory limit for that same period was $1,250.0 million (2004 – $1,225.0 million).

During the year the corporation reached an agreement with the Government of Canada to provide additional capital contributions totalling $75 million. Of this amount, $25 million has been accrued in the corporation's accounts receivable as at March 31, 2005. The Governor General in Council approved to pay this amount on or before March 31, 2005. The remainder of the capital contributions are expected to be received by the corporation over the next four years.

Dividend

On February 2, 2005, the corporation's Board of Directors declared a dividend in the amount of $3.7 million, to the corporation's shareholder – the Government of Canada which was paid February 22, 2005.

Limits on borrowing

The *Farm Credit Canada Act* restricts the total direct and contingent liabilities of the corporation to 12 times its equity. This limit can be increased to 15 times the equity with the prior approval of the Governor in Council.

At March 31, 2005, the corporation's total liabilities were 9.6 times the equity of $1,084.5 (2004 – 9.9 times the equity of $945.2 million).

2. Significant accounting policies

The corporation's financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP).

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from these estimates. The more significant areas requiring the use of management estimates are the determination of the allowance for credit losses, the provision for employee future benefits and the fair value for financial instruments.

The significant accounting policies used in the preparation of these financial statements are summarized in the following pages.

Cash and cash equivalents

Cash and cash equivalents are comprised of bank account balances net of outstanding cheques and short-term highly liquid investments that are readily convertible to cash with a maturity date of 90 days or less from the date of acquisition.

Temporary investments

Temporary investments are defined as investments with maturity dates between 91 and 365 days from the date of acquisition. They are acquired primarily for liquidity purposes and are intended to be held to maturity. Temporary investments are carried at cost; however, where there has been a significant and other than temporary decline in market value, temporary investments are written down to market value. Interest income, amortization of premiums and discounts, gains and losses on disposal, and write-downs to market value are included in investment income.

Loans receivable

Loans receivable are stated net of the allowance for credit losses and deferred loan fees.

Loans are classified as impaired when, in management's opinion, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. In addition, any loan where a payment is 90 days past due is classified as impaired unless the loan is fully secured. When a loan is specifically classified as impaired, the carrying amount is reduced to its estimated realizable amount. Changes in the estimated realizable amount arising subsequent to initial impairment are reflected as an adjustment to the allowance for credit losses.

Interest income is recorded on an accrual basis until such time as a loan is classified as impaired. All payments received on an impaired loan are credited against the recorded investment in the loan. The loan reverts to accrual status when all provisions for credit losses are reversed and, in management's opinion, the ultimate collection of principal and interest is reasonably assured.

Loan fees

As a result of the growing loan portfolio, the corporation changed its accounting policies related to loan fees to more appropriately present related transactions in the financial statements.

Fees relating to loan origination, including commitment, restructuring and renegotiation fees, are considered an integral part of the return earned on the loans and are deferred as unearned income and amortized to interest income over the average loan term. In addition, certain incremental direct costs for originating the loans are reclassified from administration expenses and netted against the related fees. Previously, loan origination fees were recognized in other income when received. Loan prepayment fees are recognized in interest income when received. Previously, these fees were deferred and amortized into interest income over the average remaining term of the loan.

The change in accounting policy has been applied retroactively and prior years have been restated for comparability. The impact on net income for 2005 is an increase of $462,000 (2004 – $539,000) and on opening retained earnings for the year ended March 31, 2004, a reduction of $3,187,000.

Allowance for credit losses

The allowance for credit losses represents management's best estimate of the credit losses in the loan portfolio. The allowance is determined based on management's identification and evaluation of problem accounts, estimated probable losses that exist on the remaining portfolio and on other factors including the composition and quality of the portfolio and changes in economic conditions. As a single industry lender, the corporation is particularly subject to adverse economic trends and other risks and uncertainties affecting agricultural regions and sectors. Accordingly, management also considers the impact of specific factors, such as land value trends, federal and provincial government support programs, commodity prices and climatic conditions.

In determining the allowance for credit losses, management segregates credit losses into three components: specific, general allocated and general unallocated.

Based on a loan-by-loan review, the specific allowance is established to value impaired loans at the lower of the recorded investment or the estimated realizable amount of the underlying security. Estimated realizable amounts are determined as the fair value of the underlying security of the loans, taking into account the estimated time and costs required to realize the security.

The general allocated allowance represents an estimate of probable losses in those loans in the portfolio that have shown deterioration in credit quality, but do not meet the criteria that would require a specific allowance to be established. A model is used to determine the probable credit losses for such loans. The model considers specific factors that indicate deterioration in credit quality to identify probable credit losses on a loan-by-loan basis. The amount of the allowance is calculated based on the application of expected loan default rates to the estimated loss amounts for the loans identified. These factors are based on the corporation's historic loan loss experience and are adjusted to reflect current conditions.

The general unallocated allowance represents management's best estimate of the probable unidentified losses in the portfolio that have not been included in the specific allowance or general allocated allowance. This assessment of probable unidentified losses is supported by a review of recent events and changes in economic conditions, as well as general economic trends, to allow for credit losses within the portfolio that have not yet manifested themselves as observable deterioration in specific loans. This allowance also covers model and estimation risks and does not represent future losses or serve as a substitute for other allowances.

The allowance is increased by provisions for credit losses and reduced by loan write-offs net of recoveries.

The allowance for credit losses is an accounting estimate based on historic loan loss experience and an assessment of current conditions. Events may occur that render the underlying assumptions invalid and thus cause actual credit losses to vary significantly from management's estimate.

Real estate acquired in settlement of loans

Property acquired from customers to satisfy loan commitments is classified as held for sale and recorded at fair value, less cost to sell. Fair value less cost to sell is the amount that could be realized in an arm's length disposition, considering the estimated time required to realize the security, the estimated costs of realization and any amounts legally required to be paid to the borrower.

Net operating costs incurred on real property held for sale are included as a component of other income. Recoveries arising from the disposal of real property held for sale are recognized when title to the property passes to the purchaser. The carrying value of real property held for sale is also adjusted to reflect significant decreases in the estimated fair value subsequent to acquisition. These recoveries and adjustments are included as a component of other income.

Venture capital investments

Venture capital investments where the corporation does not have significant influence are recorded at cost. Interest on debt and dividends on preferred shares are accrued when receivable with dividends on common shares included in income when declared. Investments over which the corporation has significant influence are recorded using the equity method. Under this method, the pro rata share of undistributed post-acquisition earnings is included in income for the period. Dividends received or receivable reduce the carrying value of the investment.

Gains or losses on disposal are recognized in income when realized. Where there has been a significant and other than temporary decline in value, the investment is written down to recognize the loss.

Equipment and leasehold improvements

Equipment and leasehold improvements are recorded at cost less accumulated amortization. Amortization is provided over the estimated useful lives of the equipment and leasehold improvements using the following methods and terms:

	Methods	Terms
Office equipment and furniture	Declining balance	20% per annum
Computer equipment and software	Straight-line	3 and 5 years
Leasehold improvements	Straight-line	Lease term

Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are converted into Canadian dollars at rates prevailing on the balance sheet date; income and expenses are translated at the monthly average exchange rates prevailing throughout the year. All exchange gains and losses are included in net income for the year as a component of interest income or interest expense.

Long-term debt

The difference between the ultimate amounts payable, at the initial exchange rates if the long-term debt is denominated in a foreign currency, and the cash proceeds of debt issues are amortized on a straight-line basis and applied to interest expense over the lives of the obligations.

Derivative financial instruments

Market risk is the risk of loss due to an exposure to changes in foreign exchange rates or interest rates. Derivative financial instruments, which are used to manage this risk, create rights and obligations that have the effect of transferring between the parties to the instrument one or more of the financial risks inherent in an underlying primary financial instrument. The corporation manages its exposure to market risk using limits approved by the Board of Directors. These limits are based on guidelines established by the Department of Finance. The corporation does not use derivative financial instruments for speculative purposes.

Effective April 1, 2004, the corporation adopted the new accounting guideline issued by the Canadian Institute of Chartered Accountants (CICA) on hedging relationships. Under the guideline, derivative financial instruments that do not qualify for hedge accounting must be measured at fair value with the change in fair value recognized in net income in the period in which the change occurred. All of the corporation's derivative financial instruments qualified for hedge accounting, therefore there was no impact on the corporation's net income for the year ended March 31, 2005.

The corporation formally assesses and documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions, to ensure the relationships qualify for hedge accounting. This process includes linking all derivatives to specific assets, liabilities, or cash flows. The corporation also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Derivatives that qualify for hedge accounting are accounted for under the accrual method rather than at fair value. Under the accrual method, gains and losses on interest rate or equity index-linked swap contracts are recognized when amounts become receivable or payable under the contract. Gains and losses on foreign currency exchange contracts are recognized to the extent required to offset the gain or loss arising on the translation of the foreign currency denominated monetary asset or liability. All gains and losses on derivatives are recognized in the same period and in the same income statement category to which the underlying hedged item relates. Amounts receivable or payable under interest rate or equity-linked swap contracts are included as a component of accounts receivable or accounts payable and accrued liabilities. Unrealized gains and losses on foreign currency exchange contracts are included as a component of accounts receivable, other assets, accounts payable and accrued liabilities or other liabilities.

Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge or if the derivative is terminated or sold. If hedge accounting is terminated, the difference between the fair value and the accrued value of the derivative upon termination is deferred as a component of other assets or other liabilities and recognized into income or expense on the same basis as gains, losses, revenues and expenses of the previously hedged item are recognized in income or expense.

Premiums received or paid for derivative financial instruments are deferred and amortized over the life of the underlying instrument as an adjustment to interest expense. Unamortized balances of premiums received or paid are included as a component of the other assets or other liabilities, respectively.

Employee future benefits

The corporation sponsors three defined benefit pension plans and a defined contribution pension plan. All plans require employees to make contributions and are available to employees immediately upon receiving permanent employee status. The defined benefit pension plans provide pension based on years of service, contributions and average earnings prior to retirement.

The accrued benefit obligation for pension and non-pension post-retirement benefits is actuarially determined using the projected benefit method prorated on service that incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors.

For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

Actuarial gains or losses arise from the difference between actual long-term rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period or from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gain or loss over 10 per cent of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. According to actuarial estimates, the average remaining service period for employees covered by the defined benefit pension plan is 15 years (2004 – 15 years). The average remaining service period of the active employees covered by the other retirement benefits plan is 20 years (2004 – 22 years).

On termination of employment, employees are entitled to non-pension post-retirement benefits provided for under their terms of employment. The corporation also provides health care benefits to employees on long-term disability.

Future changes in accounting policies

Consolidation of Variable Interest Entities

The CICA has issued Accounting Guideline 15 – Consolidation of Variable Interest Entities (VIEs) which requires the consolidation of certain VIEs that are subject to control on a basis other than ownership of voting interests. The new standard is effective for the corporation's fiscal year beginning April 1, 2005.

VIEs include entities where the equity invested is considered insufficient to finance the entities' activities or, where the equity investors lack either voting control, an obligation to absorb expected losses or the right to receive expected residual returns. The new rules require the corporation to consolidate any VIE where the investments held in these VIEs and/or the relationships with them results in the corporation being exposed to a majority of their expected losses, being able to benefit from a majority of their expected returns, or both.

The corporation is currently assessing the impact of the new standard and, in particular, whether any of its venture capital investments may be considered a VIE, and if so, whether the corporation may be required to consolidate the VIE in its financial statements. Early indications suggest the impact on the corporation's financial statements will not be significant.

Financial instruments

In January 2005, the CICA issued three new accounting standards: *Financial Instruments – Recognition and Measurement, Hedges, and Comprehensive Income*. The new standards are to be applied prospectively and are effective for the corporation's fiscal year beginning on April 1, 2007. Earlier adoption is permitted.

The new standards will require the corporation to classify each of its financial assets as held-to-maturity, loans and receivables, held-for-trading, or available-for-sale. Held-to-maturity will be restricted to financial assets with a fixed term to maturity that the corporation intends and is able to hold to maturity. Financial assets held-to-maturity and loans and receivables will be accounted for at amortized cost. Financial assets classified as held-for-trading will be accounted for at fair value with realized and unrealized gains and losses reported in income. Financial assets classified as available-for-sale will be accounted for at fair value with unrealized gains and losses being reported in a new category in shareholder's equity called Other Comprehensive Income (OCI).

Financial liabilities will be classified as held-to-maturity or held-for-trading. Financial liabilities held-for-trading will be accounted for at fair value with realized and unrealized gains and losses reported in income. Financial liabilities classified as held-to-maturity will be accounted for at amortized cost.

Derivative financial instruments will be classified as held-for-trading unless designated as hedging instruments. All derivatives, including embedded derivatives, will be measured at fair value. For derivatives that hedge the changes in fair value of an asset or liability, changes in the derivative's fair value will be reported in net income and offset by changes in the fair value of the hedged asset or liability attributable to the risk being hedged. For derivatives that hedge variability in cash flows, the effective portion of changes in the derivatives' fair value will be initially recognized in OCI. These will subsequently be reclassified to net income in the periods net income is affected by the variability in the cash flows of the hedged item.

The corporation is currently assessing the impact of the new standards.

3. Temporary investments

(thousands of dollars except %)	2005	2004
Issued or guaranteed by Canada	$ 23,926	$ 69,705
Yield	2.46%	2.06%
Other institutions	244,817	259,118
Yield	2.60%	2.30%
	$ 268,743	$ 328,823

Other institutions consist of short-term instruments issued by institutions with credit ratings of R-1M or higher by Dominion Bond Rating Service (2004 – R-1M or higher). As at March 31, 2005, the largest total investment in any one institution was $60.0 million (2004 – $74.7 million).

4. Loans receivable - net

(thousands of dollars except %)	2005	2004
Floating	$ 6,953,857	$ 5,540,646
Yield	5.11%	4.88%
Fixed	4,030,039	4,303,455
Yield	6.95%	7.24%
Performing loans	10,983,896	9,844,101
Impaired loans	175,220	205,334
Deferred loan fees	(9,166)	(10,399)
Loans receivable – gross	11,149,950	10,039,036
Less: allowance for credit losses	(462,500)	(405,339)
Loans receivable – net	$ 10,687,450	$ 9,633,697

The yields are computed on a weighted average basis by amount and term. Floating rate loans are linked to the bank prime rate and reprice with changes in the rate. The loan maturities are disclosed in Note 15.

Management estimates that annually, over the next three years, approximately 7.5% (2004 – approximately 7.5%) of the current principal balance will be prepaid before the contractual due date.

As at March 31, 2005, $76.5 million (2004 – $58.5 million) of loans receivable were denominated in a foreign currency (USD). These loans are fully hedged at time of issuance.

Concentration of credit risk

Concentrations of credit risk may arise from exposures to groups of debtors having similar characteristics, such as location or industry, such that their ability to meet their obligations may be affected similarly by changes in economic or other conditions. To manage this risk, the corporation maintains a portfolio vision defining an acceptable portfolio composition by sector and geographic area. The portfolio vision is approved by the Board of Directors and at March 31, 2005 all concentrations are consistent with the approved vision. The concentrations of performing loans by sector and geographic area are displayed in the following tables:

Sector distribution

(thousands of dollars except %)	2005		2004	
Cash crops	$ 3,663,209	33.3%	$ 3,253,078	33.0%
Dairy	2,579,947	23.5%	2,297,669	23.3%
Beef	955,506	8.7%	922,925	9.4%
Value-added	1,011,292	9.2%	935,613	9.5%
Hogs	1,018,630	9.3%	943,477	9.6%
Poultry	838,103	7.6%	746,692	7.6%
Other	917,209	8.4%	744,647	7.6%
Performing loans	$ 10,983,896	100.0%	$ 9,844,101	100.0%

Geographic distribution

(thousands of dollars except %)	2005		2004	
Western	$ 2,527,636	23.0%	$ 2,126,953	21.6%
Prairie	2,785,536	25.4%	2,537,981	25.8%
Ontario	3,724,293	33.9%	3,336,600	33.9%
Quebec	1,281,576	11.7%	1,246,619	12.7%
Atlantic	664,855	6.0%	595,948	6.0%
Performing loans	$ 10,983,896	100.0%	$ 9,844,101	100.0%

5. Allowance for credit losses

(thousands of dollars)	2005	2004
Balance, beginning of year	$ 405,339	$ 345,485
Write-offs, net of recoveries	(37,989)	(24,177)
Provision for credit losses	95,150	84,031
Balance, end of year	$ 462,500	$ 405,339
Specific allowance	$ 55,795	$ 60,232
General allocated allowance	356,705	305,107
General unallocated allowance	50,000	40,000
Balance, end of year	$ 462,500	$ 405,339

As at March 31, 2005, the total recorded investment in loans receivable against which a specific allowance has been identified was $175.2 million (2004 – $205.3 million). The general allowances were established against the remaining $ 10,983.9 million (2004 – $9,844.1 million) investment in loans receivable.

6. Venture capital investments

The corporation's portfolio of venture capital investments is focused on providing financing to small and medium-sized companies in the agriculture industry. As at March 31, 2005, the corporation does not have significant influence in the companies. All investments are accounted for at cost. The concentrations of venture capital investments are listed below.

(thousands of dollars)	2005	2004
Agriculture biotechnology	$ 9,500	$ 6,500
Bio-based fuels and chemicals	7,000	3,000
Food processing and manufacturing	5,800	–
Commercial scale primary producers	4,500	–
Agriculture equipment manufacturing	2,328	2,200
Other agriculture	2,000	2,000
	$ 31,128	$ 13,700

Investments are normally held for between three and seven years through a variety of instruments. Carrying value by type of investment is as follows:

(thousands of dollars)	2005	2004
Common shares	$ 8,000	$ 1,000
Preferred shares	3,500	3,500
Debentures	19,628	9,200
	$ 31,128	$ 13,700

The corporation has loans receivable from venture capital investees in the amount of $24.6 million (2004- $5.7 million) that are in addition to the above investments.

7. Equipment and leasehold improvements

	2005			2004
(thousands of dollars)	Cost	Accumulated amortization	Net book value	Net book value
Office equipment and furniture	$ 13,038	$ 7,482	$ 5,556	$ 5,758
Computer equipment and software	41,663	26,377	15,286	17,198
Leasehold improvements	15,836	8,335	7,501	6,927
	$ 70,537	$ 42,194	$ 28,343	$ 29,883

Amortization of equipment and leasehold improvements of $9.3 million (2004 – $8.5 million) is included in administration expenses.

8. Borrowings

The corporation's borrowings are undertaken with the approval of the Minister of Finance. The borrowings are direct obligations of the corporation and thus constitute borrowings undertaken on behalf of Her Majesty in Right of Canada and carry the full faith and credit of the Government of Canada.

Short-term debt

Short-term debt consists of promissory notes payable within one year totalling $2,729.9 million (2004 – $2,075.6 million). The effective interest rate on these notes ranges from 1.96% to 2.84% (2004 – 0.95% to 2.72%) with an average yield to maturity of 2.49% (2004 – 2.28%). Amounts denominated in foreign currencies have been translated into Canadian dollars at rates prevailing at the balance sheet date.

On December 11, 2004, the corporation renewed a revolving credit facility providing access to funds in the amount of $50 million. This facility has a one-year term and indebtedness under this agreement is unsecured. As at March 31, 2005, there were no draws on this facility.

The corporation also has a demand operating line of credit which provides overdraft protection in the amount of $10 million. Indebtedness under this agreement is unsecured and this credit facility does not expire. Any draws made throughout the year on this facility are reversed the next day. As at March 31, 2005, the balance was $3.8 million (2004 – $0.8 million).

Long-term debt

(thousands of dollars)	2005	2004
Debt from capital markets, secured by notes payable in:		
Canadian dollars	$ 6,475,797	$ 6,278,702
United States dollars ($239.0 million)	289,286	254,004
Japanese yen (¥52.5 billion)	593,040	516,052
Debt from capital markets, secured by notes payable in Canadian dollars with interest payments linked to:		
The Euro Top 100 Index	15,700	15,700
	$ 7,373,823	$ 7,064,458

Debt with index-linked interest payments does not provide periodic interest payments but, upon maturity, provides the purchaser with a single payment based on the change in the underlying equity or bond index. The corporation has entered into swap agreements that offset all index-linked interest payments in exchange for periodic payments calculated at an agreed-upon interest rate.

Debt payments denominated in foreign currencies have been fully swapped into Canadian dollars.

Long-term debt maturities based on final maturity date are as follows:

(thousands of dollars)	2005	2004
Amounts due:		
Within 1 year	$ 1,693,235	$ 1,367,311
From 1 – 2 years	1,124,471	1,516,879
From 2 – 3 years	883,542	836,718
From 3 – 4 years	535,819	596,187
From 4 – 5 years	262,702	488,337
Over 5 years	2,874,054	2,259,026
	$ 7,373,823	$ 7,064,458

Included in long-term debt are $1,808.3 million (2004 – $2,187.9 million) of instruments extendable beyond their original due dates and $1,202.8 million (2004 – $266.8 million) of callable debt. The redemption of these debt instruments is controllable by the corporation. At the inception of these debt instruments, derivative swap agreements are entered into concurrently to hedge the embedded interest rate and currency exposure. In practice, the corporation will only redeem the debt instrument if the counterparty exercises its right to terminate the related derivative swap agreement.

9. Other liabilities

(thousands of dollars)	2005	2004
Accrued benefit liability – other benefits	$ 20,405	$ 17,396
Unrealized foreign exchange	81,992	(482)
Deferred revenues	654	417
Other	399	714
	$ 103,450	$ 18,045

10. Administration expenses

(thousands of dollars)	2005	2004
Personnel	$ 88,463	$ 80,662
Facilities and equipment	19,719	19,750
Professional and other	24,876	18,973
Travel and training	10,647	9,557
	$ 143,705	$ 128,942

11. Employee future benefits

Description of benefit plans

The corporation has three funded defined benefit pension plans, an unfunded defined benefit plan, which includes post-employment and post-retirement benefits, as well as a defined contribution pension plan, that provides pension, other retirement and post-employment benefits to most of its employees. Its defined benefit pension plans are based on years of service and final average salary.

Other retirement benefit plans are contributory health-care plans with employee contributions adjusted annually, and non-contributory life insurance plans. A plan also provides short-term disability and long-term disability income benefits after employment, but before retirement.

Total cash payments

Total cash payments for employee future benefits, consisting of cash contributed by the corporation to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans, and cash contributed to its defined contribution plans, was $9.2 million (2004 – $7.9 million).

Transfer of assets

As of July 1, 2000, the corporation began administering its own pension plans for its employees. Previously, employees participated in the Public Service Superannuation Act (PSSA) pension plan administered by the Government of Canada. On November 4, 2000, the corporation signed a Pension Transfer Agreement with the Government of Canada that provided employees with a one-time option of transferring their past service from the PSSA to the new plan. With respect to members who elected to transfer past service, the transfer of assets is virtually complete.

Financial position of benefit plans

The corporation measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the pension plans for funding purposes was as of December 31, 2002. The next required valuation would be as of December 31, 2005.

(thousands of dollars)	2005 Pension Benefits	2004 Pension Benefits	2005 Other Benefits	2004 Other Benefits
Change in benefit obligation:				
Accrued benefit obligation				
Balance at beginning of year	$ 143,461	$ 127,009	$ 23,199	$ 17,876
Current service cost	5,697	4,939	1,757	1,404
Interest cost	9,499	9,266	1,562	1,288
Employee contributions	2,387	1,980	–	–
Benefits paid	(2,736)	(2,648)	(645)	(658)
Actuarial losses	16,902	2,915	2,207	3,289
Benefit obligation at end of year	$ 175,210	$ 143,461	$ 28,080	$ 23,199
Change in fair value of assets:				
Fair value of plan assets				
Balance at beginning of year	$ 156,587	$ 120,994	$ –	$ –
Actual return on plan assets	20,376	31,460	–	–
Employer contributions	7,037	4,801	–	–
Employee contributions	2,387	1,980	–	–
Benefits paid	(2,736)	(2,648)	–	–
Fair value of assets at end of year	$ 183,651	$ 156,587	$ –	$ –
Reconciliation of funded status:				
Fair value of plan assets	$ 183,651	$ 156,587	$ –	$ –
Accrued benefit obligation	175,210	143,461	28,080	23,199
Funded status of plans – surplus (deficit)	8,441	13,126	(28,080)	(23,199)
Unamortized net actuarial (gain) loss	(6,337)	(13,102)	7,675	5,803
Employer contributions after December 31	1,481	2,453	–	–
Net prepaid (accrued) benefit expense at end of year	$ 3,585	$ 2,477	$ (20,405)	$ (17,396)
Recorded in:				
Other assets	$ 3,585	$ 2,477	$ –	$ –
Other liabilities	–	–	(20,405)	(17,396)
Net prepaid (accrued) benefit expense at end of year	$ 3,585	$ 2,477	$ (20,405)	$ (17,396)

Defined benefit costs

(thousands of dollars)	2005 Pension Benefits	2004 Pension Benefits	2005 Other Benefits	2004 Other Benefits
Elements of defined benefit costs:				
Current service cost	$ 5,697	$ 4,939	$ 1,757	$ 1,404
Interest cost	9,499	9,266	1,562	1,288
Actual return on plan assets	(20,376)	(31,460)	–	–
Actuarial losses	16,902	2,915	2,207	3,289
Net cost (income) before adjustments	11,722	(14,340)	5,526	5,981
Adjustments to recognize long-term nature of employee future benefit costs:				
Difference between expected return and actual return on plans assets for the year	10,225a	22,969a	–	–
Difference between actuarial (gain) loss recognized for year and actual actuarial (gain) loss on accrued benefit obligation for year	(16,991)b	(2,887)b	(1,873)c	(3,157)c
Defined benefit costs recognized	$ 4,956	$ 5,742	$ 3,653	$ 2,824

(a) Expected return on plan assets of $(10,151) (2004 – $(8,491)) less the actual return on plan assets of $(20,376) (2004 – $(31,460)) = $10,225 (2004 – $22,969).

(b) Actuarial (gain) loss recognized for year of $(89) (2004 – $28) less actual actuarial (gain) loss on accrued benefit obligation for year of $16,902 (2004 – $2,915) = $(16,991) (2004 – $(2,887)).

(c) Actuarial (gain) loss recognized for year of $334 (2004 – $132) less actual actuarial (gain) loss on accrued benefit obligation for year of $2,207 (2004 – $3,289) = $ (1,873) (2004 – $(3,157)).

Plans with accrued benefit obligations in excess of plan assets

Included in the above accrued benefit obligation and fair value of plan assets at year end are the following amounts in respect of plans that are not fully funded:

(thousands of dollars)	2005 Pension Benefits	2004 Pension Benefits	2005 Other Benefits	2004 Other Benefits
Accrued benefit obligation	$ 2,352	$ 1,816	$ 28,080	$ 23,199
Fair value of plan assets	–	–	–	–
Funded status – plan deficit	$ (2,352)	$ (1,816)	$ (28,080)	$ (23,199)

Significant assumptions

The significant assumptions used are as follows (weighted-average):

	2005 Pension Benefits	2004 Pension Benefits	2005 Other Benefits*	2004 Other Benefits*
Accrued benefit obligation as of December 31:				
Discount rate	6.00%	6.50%	6.00/5.25%	6.50/5.25%
Rate of compensation increase	3.50%	3.50%	4.00/4.00%	4.00/4.00%
Benefit costs for years ended December 31:				
Discount rate	6.00%	6.50%	6.50/5.25%	7.00/5.75%
Expected long-term rate of return on plan assets	6.00%	6.50%	Nil%	Nil%
Rate of compensation increase	3.50%	3.50%	4.00/4.00%	4.00/4.00%

*Percentages reflect post-retirement benefits/post-employment benefits respectively.

Assumed health-care cost trend rates at December 31:

	2005	2004
Hospital:		
Initial rate	8.00%	8.00%
Ultimate rate	Nil%	Nil%
Year ultimate rate reached	2012	2012
Prescription drugs:		
Initial rate	10.30%	10.33%
Ultimate rate	5.00%	5.00%
Year ultimate rate reached	2012	2012
Other health-care costs:		
Per annum increase*	4.00%/3.00%	4.00%/4.00%

*Percentages reflect post-retirement benefits/post-employment benefits respectively.

Sensitivity analysis

Assumed health-care cost trend rates have a significant effect on the amounts reported for the health-care plans. A one-percentage-point change in assumed health-care cost trend rates would have the following effects for 2005:

(thousands of dollars)	Increase	Decrease
Total of service and interest cost	$ 557	$ (402)
Accrued benefit obligation	4,339	(3,214)

Plan assets

The percentage of plan assets based on market values at December 31 are:

	2005	2004
Equity securities	65.0%	62.8%
Debt securities	34.7%	36.1%
Other	0.3%	1.1%
Total	**100.0%**	100.0%

Defined contribution plan

The cost of the defined contribution plan is recorded based on the contributions in the current year and is included in administration expense. For the year ended March 31, 2005, the expense was $1.9 million (2004 – $1.2 million).

12. Derivative financial instruments

Description of derivatives

The corporation uses derivative financial instruments to manage exposures to interest rate and foreign exchange fluctuations. The following are detailed descriptions of some of the more prominent derivative instruments used by the corporation to mitigate risk:

Interest rate swaps are transactions in which two parties exchange interest flows on a specified notional amount on predetermined dates for a specified period of time using agreed-upon fixed and/or floating rates of interest. Notional amounts upon which interest payments/receipts are based are not exchanged.

Equity index-linked swaps are transactions used to eliminate exposure to movements in a bond or equity index on a debt issue undertaken by the corporation. Two counterparties agree to exchange payments, one of which represents the percentage change in an agreed-upon bond or equity and the other a short-term interest rate index. The principal amount may or may not be exchanged at both inception and maturity.

Cross-currency interest rate swaps are transactions in which two parties exchange notional amounts at inception and maturity, as well as interest flows, on the exchanged amounts on predetermined dates for a specified period of time using agreed-upon fixed or floating rates of interest.

Currency forward contracts are transactions to either buy or sell currencies at specified dates and prices in the future.

Notional amounts

Notional principal amounts outstanding at March 31, 2005, for the various derivative financial instruments are:

Remaining term to maturity *(thousands of dollars)*		Within 1 year	1 to 5 years	Over 5 years	2005	2004
Interest rate contracts:						
Swap contracts						
Receive Floating	*Pay* Fixed	$ 190,000	$ 110,000	$ –	$ 300,000	$ 320,000
Fixed	Floating	9,456,841	1,285,675	66,609	10,809,125	8,502,716
Floating	Floating	–	–	–	–	–
Equity index-linked	Floating	15,700	–	–	15,700	15,700
Cross-currency	Floating	948,182	–	–	948,182	735,233
		10,610,723	1,395,675	66,609	12,073,007	9,573,649
Currency forward contracts						
Receive USD fixed	*Pay* CDN fixed	27,132	–	–	27,132	–
Total		$ 10,637,855	$ 1,395,675	$ 66,609	$ 12,100,139	$ 9,573,649

Counterparty credit risk and fair values

The counterparty credit risk associated with derivatives is the risk of loss due to the failure of a counterparty to discharge its obligations in a derivative financial instrument agreement. The counterparty obligation may arise when currency and interest differentials occur resulting in unrealized gains to the corporation. These unrealized gains result in positive fair values for these derivative instruments.

The corporation manages its exposure to credit risk and complies with the guidelines issued by the Minister of Finance by dealing exclusively with financial institutions whose credit rating is of high quality. Credit risk, or counterparty risk, is managed via the corporation's Board approved Counterparty Risk Guidelines, which specifies the maximum exposure that the corporation will accept for each level of credit rating. Additionally, International Swaps and Derivatives Association Inc. (ISDA) agreements have downgrade provisions to reduce counterparty credit risk. The corporation will only transact in derivatives with counterparties with whom an ISDA agreement is in place. As an addition to the ISDA agreements, Credit Support Annexes are in place with primary derivative counterparties. These annexes provide additional details regarding the administration and posting of collateral.

Counterparty credit risk is represented by replacement cost, which is the cost of replacing all derivative contracts that have a positive fair value. Net fair value represents the total of positive and negative fair values of all derivative financial instruments. The net fair values and replacement costs of the derivative instruments are as follows:

	2005			2004		
(thousands of dollars)	Positive fair value	Negative fair value	Net fair value	Positive fair value	Negative fair value	Net fair value
Interest rate swap contracts	$ 42,422	$ 23,963	$ 18,459	$ 77,376	$ 15,395	$ 61,981
Cross-currency interest rate swap contracts	2,648	89,512	(86,864)	14,524	27,715	(13,191)
Equity indexed contracts	–	895	(895)	–	970	(970)
Currency swap contracts	–	3,982	(3,982)	–	–	–
Total fair value	$ 45,070	$ 118,352	$ (73,282)	$ 91,900	$ 44,080	$ 47,820
Less impact of master netting agreements	30,578	30,578	–	38,711	38,711	–
Total	$ 14,492	$ 87,774	$ (73,282)	$ 53,189	$ 5,369	$ 47,820

The derivative contracts entered into by FCC are over-the-counter instruments. Fair values are determined using present value techniques and quoted market values. Quoted market values are obtained from the counterparty for some derivative instruments. The fair values are point-in-time estimates that may change significantly in subsequent reporting periods due to changes in market conditions. Fair value techniques use models and assumptions about future events, some of which are about unobservable market parameters. As such, fair values are estimates involving uncertainties, and may be significantly different when compared to another financial institution's value for a similar contract.

The corporation does not anticipate any significant non-performance by counterparties. The largest cumulative notional amount contracted with any institution as at March 31, 2005 was $3,226.3 million (2004 – $3,103.5 million) and the largest net fair value of contracts with any institution as at March 31, 2005, was $3.8 million (2004 – $18.0 million). The notional amounts of the financial instruments reported by the corporation are not indicative of either the market or credit risk associated with the contracts. The risk of loss is related solely to the possibility that a counterparty to a transaction does not perform as agreed. The corporation mitigates the credit exposure on multiple derivative transactions by entering into master netting agreements with counterparties. These agreements create the legal right of offset of exposure in the event of default.

Derivative related amounts – assets and liabilities

Amounts due from counterparties under swap contracts included in accounts receivable at March 31, 2005 were $23.9 million (2004 – $17.9 million). Amounts payable to counterparties under swap contracts included in accounts payable and accrued liabilities at March 31, 2005 were $3.5 million (2004 – $4.4 million).

Unrealized gains and losses on foreign currency exchange contracts included in accounts payable and accrued liabilities at March 31, 2005 were $2.8 million (2004 – nil) and in other liabilities at March 31, 2005 were $82.0 million (2004 – ($0.5) million).

13. Fair values

The following table summarizes the estimated fair value of the corporation's financial instruments at the balance sheet date. The fair values are determined using the valuation methods and assumptions described below. The calculation of estimated fair values is based on market conditions at a specific point in time and may not be reflective of future fair values. The fair values of derivative financial instruments are not included in the table below and are presented in Note 12.

	2005		2004	
(thousands of dollars)	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Assets				
Cash and cash equivalents	$ 318,062	$ 318,062	$ 149,409	$ 149,409
Temporary investments	268,743	268,743	328,823	328,823
Accounts receivable	67,097	67,097	37,924	37,924
Loans receivable – net	10,687,450	10,796,693	9,633,697	9,836,179
Venture capital investments	31,128	31,128	13,700	13,700
Other assets	3,649	3,649	6,737	6,737
Liabilities				
Accounts payable and accrued liabilities	$ 36,097	$ 36,097	$ 31,467	$ 31,467
Accrued interest on borrowings	77,167	77,167	69,097	69,097
Short-term debt	2,729,907	2,729,907	2,075,593	2,075,593
Long-term debt	7,373,823	7,484,424	7,064,458	7,164,180

Short-term financial instruments are valued at their balance sheet carrying values, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments. This valuation methodology applies to cash and cash equivalents, temporary investments, accounts receivable, other assets, accounts payable and accrued liabilities, accrued interest on borrowings, and short-term debt.

Quoted market values are not available for a significant number of the corporation's financial instruments. As a result, the fair values disclosed for some instruments are estimated using present value measurement techniques and may not be indicative of the current replacement cost of the instrument(s). The following methods of calculation and assumptions are used:

- Venture capital investments in shares that are traded on an exchange are valued based on the closing share price as of the date of these financial statements. The investments in debt are valued at book value, which approximates fair value.
- The estimated fair value for the performing fixed-rate loans receivable is calculated by discounting the expected future cash flows (after adjustment for amounts that may be collected in advance of the contractual due dates) at year-end market interest rates for equivalent terms to maturity. The estimated fair value for the performing variable rate loans receivable is assumed to equal carrying value. The general component of the allowance for credit losses is subtracted from the estimated fair value of the performing loans receivable. The estimated fair value of the impaired loans receivable is equal to their net realizable value, which is calculated by subtracting the specific component of the allowance for credit losses from the book value of the impaired loans receivable.
- Estimated fair value for long-term debt is calculated by discounting contractual cash flows at interest rates prevailing at year-end for equivalent terms to maturity.

14. Guarantees, commitments and contingent liabilities

Guarantees

In the normal course of its business, the corporation issues guarantees and letters of credit that represent an obligation to make payments to third parties on behalf of its customers if customers are unable to make the required payments or meet other contractual obligations. The maximum amount potentially payable at March 31, 2005 is $16.6 million (2004 – $17.9 million). In the event of a call on these guarantees and letters of credit, the corporation has recourse against its customers for amounts to be paid to the third party. Existing items will expire within two years, usually without being drawn upon. No amount has been included in the balance sheet as at March 31, 2005 or March 31, 2004 for these guarantees and letters of credit.

Long-term commitments

Future minimum payments by fiscal year on technology services, operating leases for premises and automobiles with initial non-cancellable lease terms in excess of one year are due as follows:

(thousands of dollars)		
Within 1 year	$	12,116
From 1 – 2 years		10,884
From 2 – 3 years		9,601
From 3 – 4 years		4,851
From 4 – 5 years		2,897
Over 5 years		6,995
	$	47,344

Loan commitments

As at March 31, 2005, loans to farmers and agribusiness approved but undisbursed amounted to $663.7 million (2004 – $468.9 million). These loans were approved at an average interest rate of 5.38% (2004 – 5.18%) and do not form part of the loans receivable balance until disbursed. In addition, the corporation approved but did not disburse $6.0 million (2004 – $3.0 million) in venture capital investments. It is expected that the majority of these commitments will be disbursed by May 31, 2005.

Contingent liabilities

The corporation, in the normal course of operations, enters into agreements that provide general indemnification. These indemnifications typically occur in service contracts and strategic alliance agreements. The indemnification, in certain circumstances, may require the corporation to compensate the counterparty to the agreement for various costs resulting from breaches of representations or obligations. The corporation also indemnifies directors, officers and employees, to the extent permitted by law and the corporation's governing legislation, against certain claims that may be made against them as a result of their being directors, officers or employees. The terms of these indemnifications vary; thus the corporation is unable to determine a reasonable estimate of the maximum potential amount the corporation could be required to pay to counterparties. Historically, the corporation has not made any payments under such indemnification. No amount has been included in the balance sheet as at March 31, 2005 or March 31, 2004 for these indemnifications.

The corporation's contingent liabilities include creditor life and accident insurance policies, which are sold to customers under the Agri-Assurances program. The corporation is exposed to risk to the extent that claims may exceed premiums collected. The program is administered by a major insurance provider and is based on premiums that are actuarially sound. Risk exposure is further mitigated by a claims fluctuation reserve. Historically premiums have significantly exceeded claims.

15. Interest rate risk

The corporation is exposed to interest rate risk as a consequence of the mismatch, or gap, between the remaining term to maturity or repricing and interest rate sensitivity of its assets and liabilities. The corporation uses derivative financial instruments to manage its interest rate risk. The following table summarizes the corporation's interest rate risk based on the gap between the carrying value of assets, liabilities and equity, grouped by the earlier of contractual repricing or maturity dates and interest rate sensitivity. The corporation's borrowings are also shown net of the derivative financial instruments entered into to manage the corporation's interest rate risk.

Interest rate risk

(thousands of dollars except %)	Floating Rate	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-Interest Sensitive	Total
Assets							
Cash and cash equivalents	$ –	$ 313,533	$ –	$ –	$ –	$ 4,529	$ 318,062
Effective yield[2]		2.52%					
Temporary investments	–	233,881	33,261	–	–	1,601	268,743
Effective yield[2]		2.59%	2.60%				
Loans receivable – net	6,885,897	383,226	890,202	2,496,218	202,856	(170,949)	10,687,450
Effective yield[2]	5.09%	7.43%	6.94%	6.77%	7.54%		
Venture capital	–	–	–	16,628	3,000	11,500	31,128
Effective yield[2]				12.43%	10.00%		
Other assets						99,610	99,610
	$ 6,885,897	$ 930,640	$ 923,463	$ 2,512,846	$ 205,856	$ (53,709)	$ 11,404,993
Liabilities							
Borrowings	$ 6,820,000	$ 990,157	$ 853,489	$ 1,224,244	$ 267,856	$ (52,016)	$ 10,103,730
Effective yield[2]	2.52%	2.67%	3.93%	4.31%	4.54%		
Accrued interest						77,167	77,167
Other liabilities						139,547	139,547
Shareholder's Equity						1,084,549	1,084,549
	$ 6,820,000	$ 990,157	$ 853,489	$ 1,224,244	$ 267,856	$ 1,249,247	$ 11,404,993
Total gap 2005	**$ 65,897**	**$ (59,517)**	**$ 69,974**	**$ 1,288,602**	**$ (62,000)**	**$(1,302,956)**	**$ –**
Total gap 2004	$ 215,255	$ (85,921)	$ (203,152)	$ 1,018,634	$ 177,566	$(1,122,382)	$ –

Assumptions:

(1) The financial Assets and Liabilities have been presented in the gap table based on the earlier of their contractual repricing or maturity date. In the normal course of business, loan customers frequently prepay their loans in part of in full prior to the contractual maturity date.

(2) Represents the weighted-average effective yield based on the earlier of contractual repricing or maturity date.

16. Related party transactions

The corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. Transactions with these entities were entered into in the normal course of business.

17. Segmented information

The Corporation is organized and managed as a single business segment being agriculture lending. The operation is viewed as a single segment for purposes of resource allocation and assessing performance. All of the corporation's sales are within Canada. No one customer comprises more than 10 per cent of the corporation's receivables or interest revenues.

18. Comparative figures

Certain 2004 comparative figures have been reclassified to conform to the current year's presentation.

2005-10 strategic objectives

In 2004-05, FCC revised the strategy map that describes how the organization intends to create sustained value. The map is designed to identify and communicate the four strategic themes and corporate objectives that FCC has chosen to pursue to achieve the corporate vision.

The objectives are grouped according to the following new strategic themes:

- Strengthen market presence
- Enhance customer experience
- Optimize execution and performance
- Sustain commitment to agriculture

In the five-year planning period, from 2005 through 2010, greater emphasis will be placed on the internal capability perspective. Enhancing business processes and information technology architecture will support our ability to take the customer experience to the next level.

FCC Balanced Scorecard 2005-10

Strengthen market presence

FCC will strengthen its presence in the agricultural financing marketplace, promoting the value FCC delivers with all customers, partners and all stakeholders and across all channels. This means continuing to build visibility to raise awareness of FCC's full offerings: relationships, expertise and products and services tailored to agriculture.

Financial Income Growth	Portfolio growth	5.44%	
	Non-Interest Revenue	$11.9 million	
	Net Interest Income Margin	3.11%	
Customer Understands business, financial, and relationship needs Attract customer and business relationships	New customer acquisition – all channels	Q1 Farm Finance targets Q3 AgExpert targets and begin reporting against AgriSuccess targets[1]	Design business development strategies for each FCC business line Deliver a customer experience that results in vocal ambassadors Leverage relationships with centers of influence (accountants, lawyers, realtors and others) in order to attract new customers
	Venture capital • Interest and fee income amount • Amount co-invested • Capital invested	 – $2.6M – Co-investment ratio of 1.3:1 – $18.0M	Expand venture capital in line with funding from federal government in order to better serve the agriculture industry and attract additional co-investment
	Market share at 20.70%	Set targets by business line	Expand target market reporting ability by business line
Internal capability Relationship selling, management of all FCC Solutions Portfolio/Risk Management Consistent brand-marketing of FCC's full capabilities Strategic integrated planning	Time spent with customers and prospects for value-added activities	Develop work plan and set targets for following fiscal years	Redesign key processes to enable more time with customers Enhance portfolio risk management tools and processes to optimize portfolio composition and return Create integrated marketing communication strategy to raise visibility and create awareness of FCC's spectrum of offerings and commitment to agriculture

[1] Quarterly targets were adjusted slightly at the beginning of fiscal 2005-06.

FCC Balanced Scorecard 2005-10

Enhance customer experience

FCC will enhance the customer experience and customer perceptions of FCC. When customers choose FCC, we want them to feel they are choosing Canada's leader in the industry. Our focus will be on enabling FCC's ability to build and expand strong relationships with customers as a contributor to their success.

2005-10 Strategic Objectives	Measures	2005-06 Targets	2005-06 Initiatives
Financial Return on equity and investment	Return on equity	11.49%	
Customer Anticipates and offers tailored, preferred solutions across channels Build and expand relationships across channels	Customer experience index	Q3 Establish baseline Q4 Set targets	Define components of customer experience and build index
	Total value penetration[2]	Q1 Set targets	Create tools to support employees' ability to tailor full spectrum of FCC's offerings to customer needs Create products and services uniquely tailored to satisfying customer needs and exceeding their expectations
	Channel usage • # of unique website visitors per year • # of website pages visited per year • # of online registered borrowers • # of CSC customer contacts • $ disbursed of CSC direct full service lending	 • Establish baseline and set targets • 1.4 million • 10,000 • 80,000 • $155 million	Execute online and CSC (call centre) strategies to provide customers with enhanced service via their channel of choice
Internal capability Seamless, cross-channel integration to deliver sales, service Solutions innovation, tailoring and management Customer value management Differentiated online presence Customer and user experience standards management	Customer value management Customer channel awareness, preferences and permissions	Establish approach Establish approach	Investigate approach to measuring customer value Create integrated and streamlined processes for offering full spectrum of products and services to enhance the customer experience across channels (Farm Finance, Agribusiness, Alliance and Dealer loans as well as "solution sales," such as insurance, AgExpert, AgriSuccess training, etc.). These processes will be deployed to employees through a single user interface to make it easy for them to serve customers, which will create the capacity and ease of execution necessary to handle sales growth Enhance the integration of lending policy across business lines

[2] Measure title changed from "Total value proposition" to "Total value penetration" at beginning of fiscal 2005-06.

FCC Balanced Scorecard 2005-10

Optimize execution and performance

FCC's organizational capabilities will strengthen the ability to deliver a unique, best-in-class customer experience. The integration of FCC's processes, technology and resources will be optimized to deliver efficient, cost-effective and quality solutions to the benefit of customers and the agriculture industry.

Critical Success Objectives	Measures	2005-10 Targets	2005-06 Initiatives
Financial Balance sheet optimization	Efficiency ratio	Between 40% and 45%	Re-evaluate arrears targets in relation to the changing portfolio
	Debt-to-equity	Under 10:1	
	% of PND with arrears	6%	
	SCRM	Managed range: between 55 and 70	
Customer Continuously delivers consistent, efficient quality service Retain customers and grow loyalty efficiently			Revise environmental policy and process to meet new legislative requirements Revamp forms management Create enterprise records management strategy and implement document imaging solution Research and evaluate user identity management to increase efficiency and safeguard customer
Internal capability Process innovation and continuous improvement Integrated value chain process redesign Agile, integrated IT solutions delivery Simplified, flexible business/IT architecture and standards Effective project execution, management and control IT platform reliability and performance Strategy execution, Enterprise Risk Management Enterprise services delivery, management	Process improvements and quick wins benefits realized	EVC baseline and business case Create business cases to measure "quick wins" process redesign and loan renewals Track benefits of business case	**Enterprise Integration** Create corporate content management strategy and content management framework to standardize FCC's enterprise-wide approach to content development, deployment and governance Internal control framework – implement framework to maintain and enhance controls through process and system design Redesign loan maintenance process
	IT architecture capability	67% of key architectural framework elements implemented	**Information Technology** Upgrade FCC network Create integrated test environment Determine loan management system replacement Enterprise and back office application architecture integration Enhance business platforms
	User acceptance (performance, reliability and usability)	Q3 Establish baseline and preliminary targets mid-year	
	Project management maturity[3]	Establish approach and set baseline	**Enterprise Risk Management** Carry out enterprise risk management process and incorporate into strategic plan process and risk mitigation activities Increase focus on business strategy execution with enhanced metrics and cascaded objectives Complete installation of capacity planning

[3] Measure title changed from "Project execution capability" to "Project management maturity" at the beginning of fiscal 2005-06.

FCC Balanced Scorecard 2005-10

Sustain commitment to agriculture

FCC is committed to helping the agricultural industry succeed as well as contributing to the enhancement of the rural communities where our customer and employees live and work. Strengthening and leveraging FCC's knowledge base and building awareness of agriculture will demonstrate support for the industry and customers.

2005-10 Strategic Objectives	Measures	2005-06 Targets	2005-06 Initiatives
Financial Investment in agriculture			Increase awareness of the value of agriculture in: • Journalism students (Ag 101 on Highway 1) • School-age children (Agriculture in the Classroom) Explore additional initiatives to increase awareness of agriculture industry Promote agriculture and help FCC customers sell their products with FCC initiative, CanadianFarmersMarket.com
Customer Trusted partners and industry catalyst Build industry, stakeholder awareness, credibility and support	Corporate Social Responsibility (CSR) scorecard	Q3 Establish baseline[4] Q4 Set targets for 2006-07	Grow producer knowledge of farm/agribusiness management practices via: • AgriSuccess seminars on topics including succession planning, human resource management, farm financial management and price risk management • Advanced Farm Manager: comprehensive business management training for today's farm owners/managers • Subscriptions to AgriSuccess Journal, highlighting agriculture news and management issues • Explore needs of young farmers Continue community investment with an emphasis on rural safety and food issues (World Food Day, First Aid on the Farm, etc.) Enhanced support for rural communities with AgriSpirit capital giving program Develop CSR scorecard to measure FCC's corporate citizenship
	Corporate Reputation Index	Not applicable	
	Media Favourability Index	Score of 63	Continue to increase quality and quantity of media coverage regarding FCC Target urban publications to educate Canadians regarding agriculture
Internal capability Knowledge management leverage Industry investments and stakeholder relations			Invite customers to participate in select Knowledge Management community of practice events Leverage community of practice (CoP) knowledge to the benefit of customers by adding CoP knowledge to FCC website Conduct program to inform elected officials of FCC's role and offerings

[4] Quarterly targets were adjusted slightly at the beginning of fiscal 2005-06.

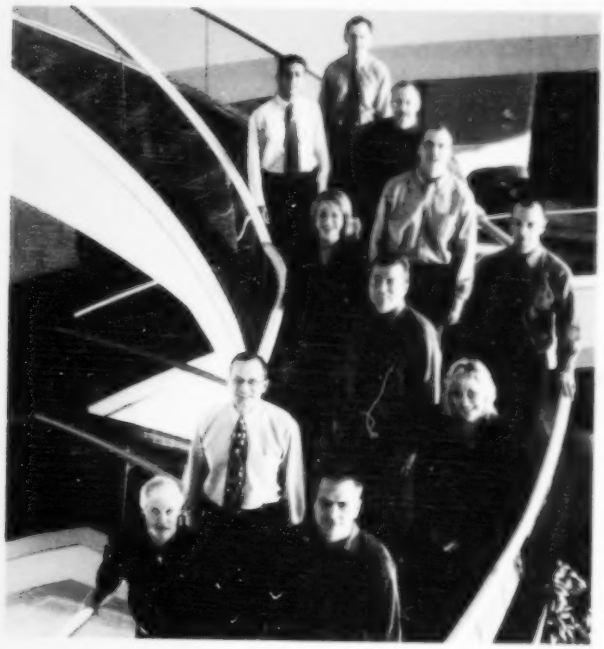
FCC Balanced Scorecard 2005-10

People: The foundation of FCC's strategy

FCC's commitment to agriculture is founded on the commitment of dedicated employees. This is one of the reasons FCC invests in the people who come to work every day. Building and sustaining strong customer relationships requires a workforce that is knowledgeable, motivated and innovative.

FCC believes in fostering leadership at all levels within a culture of respect and accountability. Areas of focus include leadership governance, creating a culture that is customer-focused, knowledge and employee-oriented, aligning performance management and creating strategic competencies and capabilities.

2005-10 Strategic Objectives	Measures	2005-10 Targets	2005-06 Initiatives
Strategic enterprise leadership	Engagement score	Minimum threshold 80%	Continue implementation of cultural transformation strategy, including coaching employees regarding the cultural practices Deliver leadership training to new managers and supervisors Help develop future leaders via leadership development program
Customer and knowledge culture			
Employee-oriented culture	Engagement driver management	Q1 Establish targets once drivers are confirmed	Identify key drivers and create action plan to continuously improve employee engagement
Aligned performance management	Employee experience	Q1 Set targets Q2 Begin monitoring and reporting against targets	Define the FCC employee experience and attendant development requirements Provide education and tools to enhance employee ability to serve as brand ambassadors
Strategic competencies and capabilities	Strategic competency development	Q3 Set targets Q4 Begin monitoring and reporting against targets	Create opportunities for future employees with Account Manager and co-op student work experience program Explore required strategic competencies to meet FCC's future needs Conduct review of FCC's employee classification system, competency and performance management Deliver field development program



1. **Moyez Somani** – *EVP and Chief Financial Officer*
2. **Remi Lemoine** – *VP Operations, Atlantic and Eastern Ontario*
3. **Greg Honey** – *Senior VP Human Resources*
4. **Corinna Mitchell-Beaudin** – *VP Portfolio Management*
5. **James Taylor** – *VP Venture Capital*
6. **Mike Hoffort** – *VP Partners and Channels*
7. **John J. Ryan** – *President and Chief Executive Officer*
8. **Sophie MacDonald** – *VP Enterprise Integration and Innovation*
9. **Larry Martina** – *VP Operations, West*
10. **Don Stevens** – *VP and Treasurer*
11. **Paul MacDonald** – *Senior VP and Chief Information Officer*

Senior Management Team

The drive to create a great customer experience and make a difference to agriculture unites all employees at FCC. And the Senior Management Team (SMT) is no exception. SMT believes that leadership exists at all levels and that engaged employees create great relationships with customers. To this end, SMT is purposefully creating a culture where every employee is encouraged to share ideas and give constructive feedback to others. We believe that our customers require every employee's contribution to be fully leveraged in creating products and services to help them succeed.

President and CEO John Ryan says leaders empower those around them by creating vision, sharing knowledge, listening to ideas and motivating others to achieve excellence. "SMT is committed to the personal success of each employee and to continual improvement of the workplace environment." Our employees strongly favour this approach. It is no surprise that FCC enjoys very high employee satisfaction, customer loyalty and business results.

Strong relationships with customers and employees are founded on strong communication. In our quest to sustain high performance, leaders are pushing themselves to higher levels of interpersonal communication than ever before – building trust and enabling true dialogue at all levels. At FCC, leaders are expected to obtain high results, but not at the expense of employees. This balance is challenging at times, but essential to sustain high performance.

FCC ranked 35th on the 50 Best Employers in Canada list by The Globe and Mail's Report on Business magazine.

1. **Ross Topp** – *VP Audit and Integrated Risk*
2. **André Tétreault** – *VP Credit Risk*
3. **Paul Daro** – *VP and Chief Technologist*
4. **Kellie Garrett** – *Senior VP Strategy, Knowledge and Reputation*
5. **Dan Bergen*** – *VP Operations, Prairie*
6. **Rick Hoffman** – *VP and Controller*
7. **Alain Gagnon** – *VP Operations, Quebec*
8. **Lyndon Carlson** – *VP Marketing and Portfolio Management*
9. **Bill Dufraimont**** – *VP Operations, Western Ontario*
10. **Greg Stewart** – *Executive VP, Operations*

* Effective April 1, 2005, VP Operations, Western Ontario
** Retired April 16, 2005

FCC is now recognized as one of Canada's best 50 companies to work for. Our story is a model for how business leaders with determination, sensitivity and intelligence can encourage employees to give their absolute best to customers, their communities and each other every day.

John Ryan's drive to build a high-performance organization and genuine respect for other ways of being has been pivotal in attracting and retaining a senior team of professionals with diverse talents and experience. The 21 SMT members are talented and incredibly dedicated to the agriculture industry, customers and employees. They are sought after as best practice leaders in their fields. Many are avid volunteers in their communities.

These are admirable characteristics. What is most noteworthy? SMT's commitment to creating an environment in which people excel is what propels employees to go above and beyond what is expected – to exceed customer expectations.

All executives, with the exception of the President and Chief Executive Officer, are paid within salary ranges and compensation policies set by corporate policy and approved by the Board of Directors. The Governor in Council sets the President and CEO's salary and benefits. All executives receive a variable remuneration component linked to the performance of the corporation, the business unit and the individual. In 2004-05, the salary range for the President and CEO was set at $240,500 to $282,900. The salary range for Executive Vice-Presidents was $155,215 to $259,865. The salary range for Vice-Presidents was set at $108,560 to $190,950. Total compensation paid to SMT was $3,743,176. This includes compensation paid to the five area vice-presidents who became part of the senior management team in fiscal 2004-05.

Two FCC Vice-Presidents had their heads shaved after $135,000 was raised by employees for the United Way in Regina.

1. Marie-Andrée Mallette
2. Maurice Kraut
3. Warren Ellis
4. Donna Graham
5. Deborah Whale
6. Don Haliburton
7. Germain Simard
8. John J. Ryan
9. Jack Christie
10. Rosemary Davis
11. Russel Marcoux
12. Joan Meyer

FCC Board of Directors 2004-05

Corporate governance

FCC corporate governance policies are consistent with current best practices for publicly traded companies and government policy as recently expressed by the Hon. Reg Alcock, President of the Treasury Board, in his report to Parliament entitled Meeting the Expectations of Canadians – Review of the Governance Framework for Canada's Crown Corporations.

FCC is governed by the *Farm Credit Canada Act* and reports to Parliament through the Minister of Agriculture and Agri-Food.

FCC's Board of Directors is appointed by FCC's shareholder, the Government of Canada. The Board Chair and the President and CEO are each appointed by the Governor in Council. The Minister of Agriculture and Agri-Food appoints FCC Directors after considering the recommendation of FCC's Nominating Committee. There are 12 people on the Board of Directors; all but the CEO are independent of the business.

The Board of Directors recognizes that effective corporate governance is an ongoing process and it conducts regular reviews of governance practices, ensuring a high level of accountability. The Directors believe that corporate governance practices evolve, depending on the needs and characteristics of the corporation.

FCC's Board of Directors is satisfied that its corporate governance structure is effective and appropriate and addresses the recommendations made by the Auditor General of Canada respecting corporate governance for Crown corporations in her recently published chapter on governance of Crown corporations.

Each year, FCC prepares a five-year corporate plan setting out strategies, capital and operating budget needs. At the end of each year, we submit an annual report providing the details of our performance, governance policies and practices.

The Auditor General of Canada reviews our statements every year and conducts a special examination every five years. This is a value-for-money audit and is designed to focus on the financial and management controls, information systems and management practices maintained by FCC. Our most recent special examination was completed November 27, 2002. No significant deficiencies were reported, a significant achievement for a Crown corporation.

Board mandate

The Board oversees FCC's management and performance in the best interests of the corporation, agriculture, agribusiness, Canadians and the Government of Canada.

The roles and responsibilities of the Chair, Board members, the CEO and all Board committees are set out in written profiles and charters. A new written charter and a related set of Board governance guidelines have been adopted. These documents articulate the Board's responsibilities in six major areas:

- Integrity – legal and ethical conduct – setting the tone at the top;
- Strategic planning;
- Financial reporting and public disclosure;
- Risk management and internal controls;
- Leadership development and succession planning; and,
- Corporate governance – including director orientation, continuing education and evaluation.

Independence

With the exception of the CEO, all Board members are independent of management. The FCC Board Chair and committee chairs are independent. The independent members of the Board meet in private, without management present, at every regular meeting.

Nominating Committee

This year, the Board established a Nominating Committee comprised entirely of independent members. Chair and Director profiles were approved. These profiles establish desirable qualifications and experience for Directors and the Board Chair. These profiles help the Nominating Committee evaluate candidates for possible appointment to the FCC Board. This merit-based process starts by gathering the names of interested individuals recommended by senior management or board members and securing detailed resumés. This process helps to identify gaps in the desired skill sets represented by the Board as a whole when recommending appointments to FCC's Minister.

Board evaluation

Through a structured process of self-evaluation, the Board continually assesses its collective performance and the individual performance of its members, looking for ways to improve. With the help of outside counsel, the Board identifies areas where change may be required in order to achieve governance best practices.

Public policy role

As a federal Crown corporation, FCC serves a public policy role. Our mission is to enhance rural Canada by providing business and financial solutions to farm families and agribusiness. We fulfil this mission by offering loans and business services to meet the needs of the industry, operating on a financially self-sustaining basis.

The Board ensures that public policy is considered in all decisions concerning strategic initiatives, including the portfolio vision, long-term employee incentives and the development of new loans and business services designed to help FCC customers and to continue to help the industry succeed.

Integrity, code of business conduct and ethics

All Board members are subject to the Board's policy governing loans where a Director has a material interest. In addition, the corporation's bylaws prescribe rules for dealing with situations where a Director has a conflict of interest. FCC Directors also follow the rules provided in the Financial Administration Act (Canada) and the Conflict of Interest Code for Public Office Holders.

This year, the Board adopted a new code of conduct and ethics that applies to all staff and the Board of Directors. FCC's previous code of conduct was contained in its Human Resources policy.

This code establishes the position of Integrity Officer within the corporation, who will be responsible for providing general advice and ongoing education concerning the code. The Integrity Officer is also responsible for the investigation of disclosures of possible wrongdoing and protecting individuals who make such disclosures from reprisal.

Strategic planning

The Board leads the corporation in the achievement of long-term goals by overseeing the strategic planning process and providing input, guidance, validation and a critical evaluation of strategic plans and initiatives. After the plan has been approved, the Board provides ongoing support to implement and measure the success of those plans and initiatives.

Each year, typically in August, the Board and senior management participates in a joint planning session. At that session, the Board receives a report from management on enterprise risk management. All of FCC's strategies include measurable targets to gauge performance. Following the planning session, management begins drafting the corporation's corporate plan, which is presented for approval in principle in the fall and for final approval in December or January.

The Board discusses particular strategic initiatives throughout the year and is responsible for approving the FCC corporate plan and annual report, and setting the annual goals and objectives of the CEO.

Enterprise risk management

The corporation's enterprise risk management process continues to evolve. It is designed to identify potential events that may affect FCC, to manage risk to be within FCC's risk appetite and to provide reasonable assurance regarding the achievement of FCC goals and objectives.

Senior management holds primary responsibility for identifying risks and designing and implementing solutions to mitigate them. The Board requires that management assure risks are being managed and that appropriate authorities and controls are in place.

Each year, FCC staff follow a prescribed process to identify risks. The risks identified are then prioritized by senior management and presented to the Board, together with risk mitigation plans. Six months later, a progress report is made to the Audit Committee.

Succession planning

This year, the Board made special effort concerning the reappointment of the FCC President and CEO, whose current term expires at the end of August 2005.

The Board, through its Human Resources Committee, annually reviews the corporation's succession plans for key positions and leadership development initiatives. Succession planning ensures there is continuity throughout the organization over the long term. The review identifies employees ready to take over a particular position and others who might be developed for leadership positions over time.

The committee encourages management to identify as many people as possible for advancement to ensure a breadth and depth of experience and expertise. This allows for a progression to the executive level, supplemented by outside experience when necessary.

Integrity of internal controls and management information systems

The Board is committed to financial transparency, and works closely with the Office of the Auditor General to ensure the integrity of FCC internal controls and management information systems.

Each year, the Board reviews lending targets for the next fiscal year, as well as FCC's market development plan and portfolio vision.

FCC treasury operations are key to the corporation's overall success. The Board reviews the operations of Treasury at each meeting and regularly reviews and updates, as necessary, policies and limits. The Board has also engaged an outside consultant, expert in these areas, to assist its review.

Credit risk is the single largest risk that the corporation faces. The Board oversees the corporation's analysis and reporting of overall credit risk and the performance and health of the FCC loan portfolio.

Finally, the Board oversees the annual audit plan. This includes the audit of the corporation's financial statements by the Auditor General of Canada and the annual audit workplan carried out by the corporation's internal audit division.

Orientation and continuing education

Upon appointment to the Board, each member receives a detailed orientation and meets with the senior management to learn about the business. Board members also have direct access to the Senior Management Team for ongoing education.

To gain understanding of the FCC business and the current issues facing the corporation, this year, the Board participated in training sessions related to FCC treasury operations and the corporation's use of derivatives. Directors also participated in an information technology fair, which provided them with hands-on exposure to FCC's information technology systems and future plans. Each year, as part of the off-site strategic planning session, the Board visits a number of customer operations, creating better understanding of the depth and scope of Canadian agriculture and the issues facing primary producers and agribusiness operators.

Composition of the Board

The Board is composed of 12 members, including the Chair and President and Chief Executive Officer.

The Governor in Council appoints the Chair and the President and Chief Executive Officer. The Minister of Agriculture and Agri-Food Canada appoints all other Directors with Governor in Council approval. Directors serve two or three-year terms and may be re-appointed.

Board members are generally successful primary producers and agribusiness operators from rural and small urban centres. The Board strives for diversity – gender, geographic, ethnic, cultural, age and language – in order to reflect the broad spectrum of agriculture in Canada.

Board remuneration

Directors are paid an annual retainer and per diems. Amounts are set by the Governor in Council pursuant to the Financial Administration Act. The rates were last approved on April 5, 2001.

- The Chair of the Board receives an annual retainer of $10,800 and a per diem of $420 for meetings attended.
- Committee Chairs receive an annual retainer of $6,400 and a per diem of $375 for meetings attended. All other Board members receive an annual retainer of $5,400 and a per diem of $375 for meetings attended.
- Directors are also reimbursed for all reasonable out-of-pocket expenses, including travel, accommodation and meals while performing their duties.

During 2004-05, there were six board meetings and 22 committee meetings. Total remuneration (annual retainer and per diems) paid to all directors was $180,419, compared to $178,013 in 2003-04. Total Board travel and related expenses were $148,454, compared to $176,913 in 2003-04. Each year, the amounts reported include per diems and travel expenses for Board members who attended FCC's annual area employee conferences, as well as external seminars and continuing education workshops.

2004-2005 Board remuneration, expenses and attendance

Director	Board retainer (A)	Per diems (B)	Total remunerations (A&B)	Committee meeting attendance[2]	Board meeting attendance[3]	Board travel and related expenses
Jack Christie	5,400	8,250	13,650	9/11	5/6	10,353
Rosemary Davis	10,800	12,180	22,980	22/22	6/6	14,936
Warren Ellis	6,400	12,375	18,775	11/11	6/6	24,205
Donna Graham	5,400	11,625	17,025	13/13	6/6	15,848
Don Haliburton	5,400	7,125	12,525	13/13	6/6	7,013
Maurice Kraut	5,400	12,000	17,400	6/6	6/6	10,879
Marie-Andrée Mallette	6,400	11,250	17,650	15/15	6/6	19,109
Russel Marcoux	5,400	7,500	12,900	16/16	6/6	10,363
Joan Meyer	6,400	9,188	15,588	12/12	6/6	6,784
Germain Simard	5,400	11,063	16,463	9/9	5/5	19,412
Deborah Whale	5,900	9,563	15,463	13/16	6/6	9,552
Total[1]	$ 68,300	$ 112,119	$ 180,419			$ 148,454

1 Column A (Board retainer) and column B (Per diems)
2 There were seven Audit, six Human Resources, five Corporate Governance and four Nominating Committee meetings
3 There were six Board meetings

New appointments

On March 11, 2005, R. Claude Ménard of Granby, Quebec was appointed to the FCC Board of Directors to replace Germain Simard, whose term expired. Mr. Ménard did not participate in any meeting of the Board of Directors during the 2004-05 fiscal year.

Audit Committee

Chair: Marie-Andrée Mallette

Members: Rosemary Davis (Board Chair), Donna Graham, Maurice Kraut, Germain Simard, Don Haliburton, Jack Christie

Members of the Audit Committee are independent of management. All committee members are financially literate and several members are considered to be financial experts, two terms now commonly used with respect to the composition of audit committees.

The Audit Committee oversees FCC's financial performance, ensuring the integrity, effectiveness and accuracy of the corporation's financial reporting, control systems, integrated risk management processes and audit functions. Recommendations from the Audit Committee are brought to the Board as required.

This committee meets regularly with representatives of the Office of the Auditor General and FCC internal auditors, without management present.

Human Resources Committee

Chair: Warren Ellis

Members: Rosemary Davis (Board Chair), John J. Ryan (CEO), Donna Graham, Joan Meyer, Russel Marcoux, Don Haliburton, Deborah Whale

This committee reviews all major human resources policy matters. The Human Resources Committee is responsible for identifying the skills and characteristics essential to the position of Chief Executive Officer and for establishing a process to assess performance and agree to an annual development plan.

The Human Resources Committee is also responsible for reviewing employee compensation and the corporation's succession plan, including plans for training and development of all employees. It also reviews the Executive Perquisites Program with respect to senior management.

Corporate Governance Committee

Chair: Joan Meyer

Members: Rosemary Davis (Board Chair), John J. Ryan (CEO), Marie-Andrée Mallette, Germain Simard, Russel Marcoux, Jack Christie, Deborah Whale

The Corporate Governance Committee reviews and makes recommendations to the Board with respect to sound governance practices, including the updating of Board practices and procedures related to conducting meetings, their frequency and length, the kind of materials and information provided to board members and the reporting of meetings.

The Corporate Governance Committee also regularly reviews the number, structure, composition and mandates of the Board's committees and monitors their performance and oversees the Board's policies with respect to ethics, conflict of interest and code of conduct for Directors.

Nominating Committee

Chair: Deborah Whale

Members: Rosemary Davis (Board Chair), Warren Ellis, Marie-Andrée Mallette, Russel Marcoux

This committee is responsible for reviewing the qualifications of possible candidates and making recommendations to the Board and Minister regarding the appointment of the President/CEO and new members to the FCC Board of Directors.

Pension Committee

Board Representatives: Maurice Kraut and Russel Marcoux

The Board of Directors provides representation on the corporation's Pension Committee to oversee the administration of pension plans, including the investment guidelines, the appointment of the pension fund managers and any material changes to the benefits granted to retiring employees. In addition to two Board members, the committee includes senior management representatives and elected employees.

Board of Directors

Rosemary Davis

Rosemary Davis, Chair since June 20, 2000, Director since December 19, 1995
With more than 30 years of experience in the agriculture industry, Rosemary Davis is the owner/manager of Tri-County Agromart Ltd. in Trenton, Ontario. Ms. Davis is active on many local and provincial agriculture committees and associations. She is a director of Trenval Business Development Corporation, serving as the head of its Agriculture Committee. She is a member of the Fertilizer Institute of Ontario's Fertilizer Use Committee, the Ontario Federation of Agriculture and the Soil and Crop Federation in Northumberland, Prince Edward and Hastings counties. Her dedication to agriculture has been recognized by her peers with an honorary lifetime membership in the Ontario Institute of Agrologists. She resides in Cobourg, Ontario.

Jack Christie

Jack Christie, FCA, Director since November 27, 2003
Jack Christie is a Fellow of the Canadian Institute of Chartered Accountants and the General Manager and CEO at Northumberland Dairy Co-operative Ltd. in New Brunswick, where he has been for the past 17 years. Mr. Christie is also a director and past-president of the Atlantic Dairy Council, and the president of the New Brunswick Milk Dealers' Association. He has served as president of the New Brunswick Institute of Chartered Accountants and as a member of the Board of Governors of the Canadian Institute of Chartered Accountants. Mr. Christie is the past-president and a member of the Rotary Club of Newcastle and is the treasurer for Enterprise Miramichi.

Warren Ellis

Warren Ellis, Chair, Human Resources Committee, Director since April 4, 1995
Warren Ellis Produce in O'Leary, Prince Edward Island, is a mixed farming operation of potatoes, barley and wheat. Mr. Ellis is president and CEO of O'Leary Potato Packers Ltd., an operation that buys, packs and markets potatoes. In 1994, he was the Atlantic region honoree in Canada's Outstanding Young Farmers Program. In addition to continued support of the Terry Fox Foundation, Mr. Ellis has served his community as a board member of the Western School Board and the P.E.I. Lending Authority and as chair of the O'Leary Community Sports Centre and the Potato Blossom Festival. Mr. Ellis is a long-time sponsor and organizer of minor hockey in P.E.I.

Donna Graham

Donna Graham, Director since September 26, 2000
Donna Graham is a managing partner of Graham Farms Vulcan Ltd., a 4,200-acre grain and oilseed operation near Vulcan, Alberta. Ms. Graham has acted as an advisor on agriculture issues to various federal and provincial government departments and served on the boards of Alberta Women in Support of Agriculture and the Canadian Farm Women's Education Council. She has received the Alberta Government Recognition Award for her contribution to the development of recreation and culture in the province and a national 4-H award for her dedication to the 4-H movement. Ms. Graham was chair of protocol for the Southern Alberta Summer Games.

Don Haliburton

Don Haliburton, CA, Director since November 4, 2003

Don Haliburton is a Chartered Accountant with more than 20 years of experience in public practice and in senior management roles with businesses in a number of industries. He is the General Manager of Exchange-a-Blade Ltd., a distributor and remanufacturer of power tool accessories. From 1994 to 2000, he was the Vice-President, Finance, of International Aqua Foods Ltd., a TSE-listed aquaculture company with operations in Canada, the United States and Chile. Mr. Haliburton has been involved with a number of Boards of Directors including Ethics in Action, a non-profit organization promoting corporate social responsibility, and Potluck Cafe, a non-profit social enterprise providing food and employment in the Vancouver Downtown Eastside.

Maurice Kraut

Maurice Kraut, Director since June 28, 1999

A co-owner and operator of a cattle and grain farm enterprise, Maurice Kraut has his own firm, Agriculture Consulting, in Winnipeg, Manitoba. He has acted as a livestock marketing and policy analyst for Alberta Agriculture, Food and Rural Development and has taught policy and marketing at the University of Manitoba. Mr. Kraut was a research director for the Canada Grains Council and an assistant deputy minister of agriculture in Manitoba.

Marie-Andrée Mallette

Marie-Andrée Mallette, Chair, Audit Committee, Director since June 16, 1995

Marie-Andrée Mallette participates in large-scale commercial crops and coloured beans operation in Quebec, with a focus on exporting. A lawyer in the agriculture domain for 18 years, Ms. Mallette has served as the regional director of the Quebec Business Women's Association and she founded the Beauharnois-Valleyfield chapter of the AFAQ (Association des femmes d'affaires du Québec). She shares her experience in exporting with new producers and has provided advisory services to exporting companies and agricultural operations seeking equity financing. She is active with the Chamber of Commerce, the Women for Access to Political and Economic Power, and the Canadian Bar Association. Ms. Mallette contributes to her community by organizing educational programs at the primary level and by participating in fundraising projects for the Canadian Postal Museum and the Canadian Museum of Civilization in Gatineau, Quebec. Her involvement, in the community and with the industry stakeholders, contributed to the visibility of FCC in the province.

Russel Marcoux

Russel Marcoux, Director since December 10, 2002

Russel Marcoux is the CEO of the Yanke Group of Companies, a firm that specializes in transportation, employing more than 700 staff and operating a fleet of more than 500 trucks. Mr. Marcoux owns and operates a Saskatchewan grain farm. He is actively involved in the Canadian Chamber of Commerce, St. Paul's Hospital in Saskatoon, Saskatchewan and the Children's Health Foundation.

Joan Meyer

Joan Meyer, Chair, Corporate Governance Committee, Director from January 11, 1995 to September 1996, re-appointed September 26, 2000

Joan Meyer is a co-owner and operator of a mixed farming enterprise near Swift Current, Saskatchewan. She owns and operates Swift Administration and Management Services, a home-based business handling financial accounts and administration for small businesses and non-profit organizations. She serves as a director on a variety of boards at the national, provincial and local level, including Canadian Lutheran World Relief, Sask Culture, Swift Current Housing Authority and the Dr. Noble Irwin Healthcare Foundation.

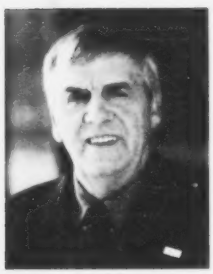
John J. Ryan

John J. Ryan, Director since September 1, 1997

With more than 30 years of financial leadership experience, John Ryan joined FCC as President and Chief Executive Officer in September 1997.

He currently serves as Past Chairman for the Hospitals of Regina Foundation and is a member of the Board of Directors for Regina's Adult Learning Centre. Mr. Ryan serves on the Board of Directors for the 2005 Canada Summer Games and is a member of the Board of Trustees for the Canadian Athletic Foundation.

A strong proponent of community involvement, Mr. Ryan has worked extensively with the United Way of Regina, serving as a Co-Chair in 1999, Chairman in 2000 and as Chair for the 2001 Leadership Campaign. In 1998 and 2001, he led the CEO Challenge for Habitat for Humanity. In 2002, Mr. Ryan received a Commemorative Medal for the Queen's Golden Jubilee, awarded in recognition of his significant contributions to the people of Canada. In 2004, Mr. Ryan received the Excel Award from the International Association of Business Communicators (IABC). This international award recognizes a CEO who champions effective communication throughout his or her organization.



Germain Simard

Germain Simard, Director since June 6, 1995

Mr. Simard co-owns, with his two sons, the Ferme de L'anse Enr., an operation that includes dairy production, field crops and agro-tourism with on-farm accommodations. From 1971-91, he was president of the Union des Producteurs Agricoles (UPA) of the Saguenay-Lac-Saint-Jean region. For eight years, Mr. Simard served as executive vice-president of the Fédération des Agricotours du Québec and, most recently, as regional president. He is a member of the agri-food co-operative Nutrinor and the Caisse populaire Desjardins. In 2004, Mr. Simard was named Regional Delegate for the Saguenay-Lac-Saint-Jean region during the comprehensive land claim negotiations with the Mamuitun and Natashkuan First Nations.

Deborah Whale

Deborah Whale, Chair, Nominating Committee, Director since November 4, 2003

Deborah Whale is vice-president and co-owner/operator of Clovermead Farms Inc., a commercial dairy and veal production business. She is the chair of the Poultry Industry Council of Canada and was co-chair of the Minister's Advisory Committee, Canadian Food Inspection Agency, chair of the Agriculture Research Institute of Ontario, chair of the Veterinary Infectious Disease Organization and is the vice-chair of the Ontario Farm Products Marketing Commission.

Glossary of terms

Agribusiness
Includes businesses on the output side of primary production that produce, transport, store, distribute, process or add value to agriculture commodities; businesses on the input side of primary production that supply materials or services to producers such as equipment dealers, cattle co-operatives and input suppliers; and value large, commercial farming operations.

Alliances
Relationships established by contract between FCC and other agriculture or financial organizations designed to pool talents and offer expanded customer services.

Allowance for credit losses
Management's best estimate of credit losses in the loans receivable portfolio. Allowances are accounted for as deductions from loans receivable on the balance sheet.

Arrears
Arrears are defined as all amounts greater than $500 that are past due.

Asset/Liability Management Committee (ALCO)
A senior management committee responsible for the management of FCC's entire balance sheet to achieve desired risk-return objectives.

Basis point
One-hundredth of one per cent, used when describing applicable interest rates or the yield of an investment.

Corporate governance
Structures, systems and processes for exercising stewardship and overseeing the direction and management of the corporation in carrying out its mandate.

Corporate social responsibility (CSR)
CSR is about accountability and transparently pursuing long-term corporate objectives in a manner that balances corporate decision-making, behaviour and performance with the evolving values, norms and expectations of society.

Counterparty
The opposite side of a financial transaction, typically another financial institution.

Counterparty risk
The risk that the counterparty will not be able to meet its financial obligations under the terms of the contract or transaction into which it has entered.

Credit rating
A classification of credit risk based on investigation of a company's financial resources, prior payment pattern and history of responsibility for debts incurred.

Derivative financial instrument
A financial instrument where value is based on and derived from an underlying price, interest rate, exchange rate or price index. Use of derivatives allows for the transfer, modification or reduction of current or expected risks from changes in interest rates, foreign exchange rates and equity prices. Types of derivative contracts include interest rate swaps, interest rate options, caps, floors, currency swaps, equity-linked swaps, forward contracts and futures.

Efficiency ratio
A measure of how well resources are used to generate income calculated as administration expenses as a percentage of revenue (composed of net interest income, net lease income and other income).

Enterprise
Specific type of agriculture operation, for example, dairy, cash crops, beef, etc.

Enterprise risk management
The balance of the Corporation's risk-taking activities and risk management practices within the context of executing corporate strategy and achieving our business goals and objectives.

Farm Finance
Financing provided to farms that produce raw commodities, e.g. crops, beef, hogs, poultry, sheep and dairy as well as fruits, vegetables and alternative livestock; also includes value-added agriculture operations of less complexity and scope than those categorized as Agribusiness.

Foreign exchange risk
The risk of financial loss due to adverse movements in foreign currencies.

Gap analysis
A tool to measure the maturing balances of assets and liabilities for interest rate risk-management purposes at specifically defined periods.

Hedge
A risk management technique used to protect against adverse price, interest rate or foreign exchange movements through elimination or reduction of exposures by establishing offsetting or risk-mitigating positions.

Impaired loans
Loans where, in management's opinion, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. Any loan where a payment is 90 days past due is classified as impaired unless the loan is fully secured.

Interest and currency rate swaps
Contractual agreements for specified parties to exchange currencies and/or interest payments for a specified period of time based on notional principal amounts.

Interest expense
Expense to the corporation incurred on debt.

Interest income
Income earned on loans receivable, cash and investments.

Interest rate option
A right, but not an obligation, to pay or receive a specific interest rate on a notional amount of principal for a set interval.

Interest rate risk (IRR)
Exposure to a decline in net interest income and capital position as a result of changes in interest rates. Varieties of interest rate risk include prepayment risk, commitment risk and reinvestment risk.

Leverage
The relationship between total liabilities and the equity of a business.

Liquidity risk
The risk that required funds will not be readily available to meet corporate obligations in a timely manner.

Loan renewal rate
Percentage ratio of principal dollars renewed to principal dollars matured.

Market value of portfolio equity (MVPE)
The net present value of assets less liabilities. It is used to measure the sensitivity of the corporation's net economic worth to changes in interest rates.

Net disbursements
Represents disbursement of funds against approved loans excluding refinancing of existing FCC loans.

Net interest income (NII)
The difference between the interest earned on assets, such as loans and securities, and interest expense on borrowings.

Net interest income margin
Net interest income expressed as a percentage of average total assets.

Notional amount
The amount considered as principal when calculating interest and other payments for derivative contracts. This amount traditionally does not change hands under the terms of the derivative contract.

Prepayments
Prepayments are defined as unscheduled principal payments prior to interest term maturity.

Provision for credit losses
The provision for credit losses is charged to the income statement by an amount necessary to bring the allowance for credit losses to a level determined appropriate by management.

Return on equity (ROE)
Net income expressed as a percentage of average equity.

Risk Scoring and Pricing System (RSPS)
A tool used to evaluate the type and potential impact of risks present in each loan to ensure FCC is adequately compensated for the risk in its portfolio.

Strategic Credit Risk Model (SCRM)
A tool to measure overall credit risk present in the portfolio, which reflects the impact of corporate priorities, credit culture, risk strategy and risk controls.

Value-Added
Agriculture businesses on the input or output side of primary production that produce, transport, store, distribute, process or add value to agricultural commodities.

Variable interests
Contractual, ownership or other pecuniary interests in an entity that fluctuate with changes in the fair value of the entity's net assets.

Variable interest entity (VIE)
An entity that by design does not have sufficient equity at risk to permit it to finance its activities without additional subordinated financial support, or in which equity investors do not have the characteristics of a controlling financial interest.

FCC office locations

British Columbia
Abbotsford, Dawson Creek, Duncan, Kelowna

Alberta
Barrhead, Brooks (S), Calgary, Camrose, Drumheller, Falher, Grande Prairie, Leduc, Lethbridge, Medicine Hat, Olds, Red Deer, St. Paul (S), Stettler (S), Stony Plain, Vegreville, Vermilion, Westlock

Saskatchewan
Assiniboia, Carlyle, Estevan (S), Humboldt, Kindersley, Moose Jaw, North Battleford, Prince Albert, Regina, Rosetown, Saskatoon, Swift Current, Tisdale, Weyburn, Wynyard (S), Yorkton

Manitoba
Arborg, Brandon, Carman, Dauphin, Killarney (S), Melita (S), Morden, Neepawa, Portage, Shoal Lake (S), Steinbach, Stonewall (S), Swan River (S), Virden

Ontario
Barrie, Campbellford, Chatham, Clinton, Embrun, Essex, Guelph, Kanata, Kingston, Lindsay, Listowel, London, North Bay, Owen Sound, Simcoe, Stratford, Vineland, Walkerton, Woodstock, Wyoming

Quebec
Alma, Drummondville, Gatineau, Granby, Joliette, Rivière-du-Loup, Sherbrooke, Ste-Foy, St-Georges-de-Beauce (S), St-Hyacinthe, St-Jean, St-Jérôme, Trois-Rivières, Valleyfield, Victoriaville

New Brunswick
Moncton, Sussex, Woodstock, Grand Falls

Newfoundland and Labrador
St. John's

Nova Scotia
Truro, Kentville

Prince Edward Island
Charlottetown, Summerside

(S) Satellite office – restricted hours.

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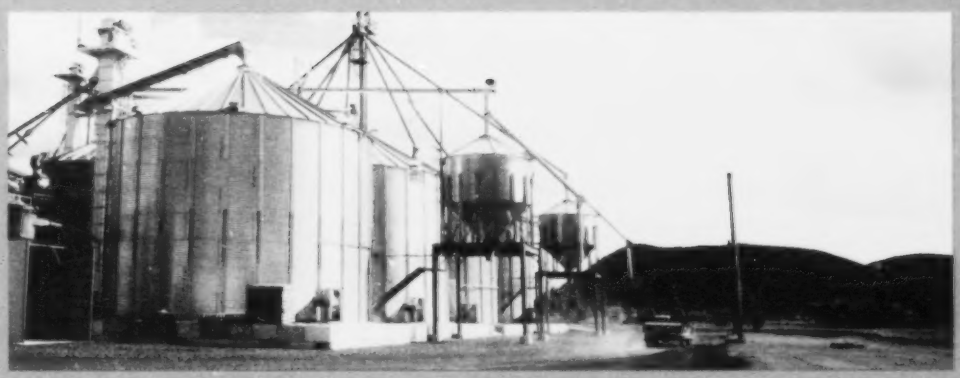
– Photography by Greg Huszar



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